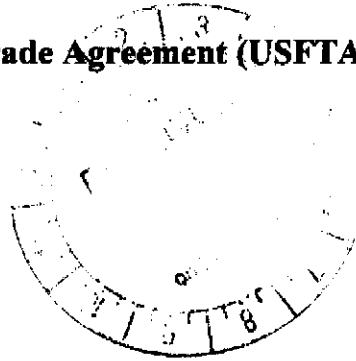


Secretary
Senate Select Committee on the US Free Trade Agreement
Parliament House
Canberra ACT 2600

Submission on the United States Free Trade Agreement (USFTA)

From:

Andrew Gaines



The proposed US-Australia Free Trade Agreement is antithetical to community well-being, and should be rejected.

What follows is a thoughtful presentation not easily summarized in bullet points because it looks at some larger trends.

Summary

There are two modes of thinking that apply to economics and governance:

Partnership thinking – concern for community well-being.

Dominator thinking – seeking personal or group advantage at the expense of others, and being willing to use force to get it.

The historic pattern of empires is based on dominator thinking. Dominators use force and coercion to ensure that materials and money flow from the periphery to the centre.

Accruing more wealth through the WTO and free trade agreements is the object of American commercial interests today.

Democracy is an expression of partnership thinking. Open discussion can lead to policies that prevent or correct excessive imbalances, and promote community well-being.

This agreement subverts democracy by requiring that local laws be adjusted to fit the agreement, and requiring that local laws cannot be passed that are not consistent with the agreement. On this basis the agreement should be rejected.

The agreement is for the benefit of large commercial interests in America and Australia.

Increasing monetary flows does not necessarily increase well-being of a society.

The last two decades of prosperity in America have made the wealthiest Americans wealthier, and most Americans are far less well-off. (If you don't intend to read this whole document, at least skim through and look at the graphs – they are amazing.) Associated with this wealth statistic is a deteriorating quality of life in America. In Australia, which has seen a rise in general affluence, the physical and mental health of children is measurably deteriorating. This is not an argument against affluence, but it raises profound questions as to how we organize our economic and social system.

Wealth can be accumulated through ruthless and socially destructive business practices. Wal-Mart is used as an example of how this has worked in United States. If we become integrated with the US economy the same practices can and presumably will be applied here to our detriment. A possible scenario is given.

The United States has become a rogue state dominated by large corporations. It has the largest military in the world, and intends to militarize space with precision remote sensors and weapons. It has refused to submit itself to the rule of international civil law, and recently has adopted a policy of pre-emptive attack. It has a history of willingly using its military force to promote its commercial interests. In other words, it will murder for profit. If we actually believe in the ideals of freedom, democracy and community well-being – and indeed basic decency – we should not align ourselves with America more than we have.

The Australia-US Free Trade Agreement is antithetical to community well-being

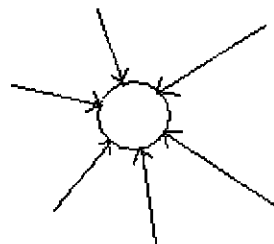
As an orientation, I should briefly state my background. I am an American by birth, although I have permanent residence here. I have a degree in philosophy from Princeton University, and read constantly and widely with a view to understanding how ecology, economics and psychology work together. I am a member of EcoSTEPS, a sustainability training and education company.

So what I say is not idle US bashing – it is my considered appraisal of a great country gone awry. And I raise the question: is it is sensible or moral for Australia to see become more closely allied with America at this time? I think not. My reasoning follows. I argue in terms of large-scale patterns and trends, rather than closely knit economic analysis. You may find this approach helpful.

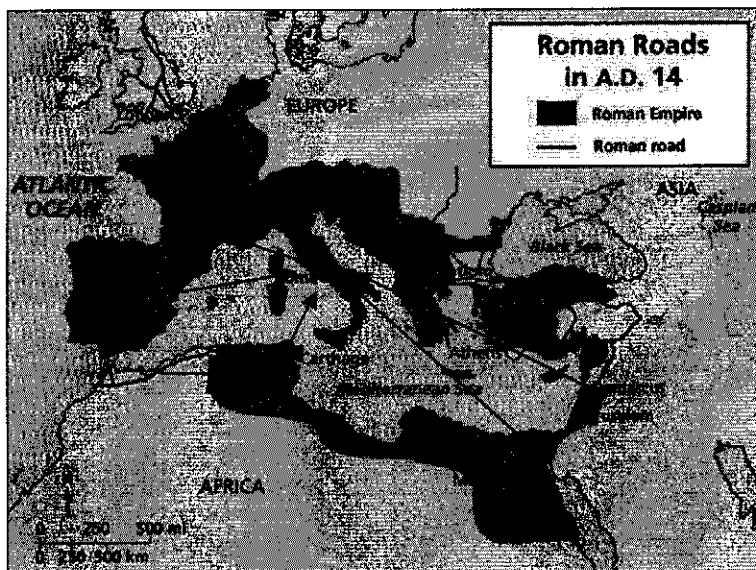
Partnership versus dominator values

Most people, quite rightly, are concerned for their own well-being and prosperity. But there are two main approaches as to how ‘prosperity’ is conceived. These are the *dominator* approach and the *partnership* approach.

The dominator approach views prosperity as a result of accruing ever more material wealth and power. In the extreme – which characterizes all past empires – the desire to amass ever more wealth is carried out by conquering or intimidating colonial countries, as well as by having slaves, serfs or an impoverished working-class domestically. In a dominator system wealth is acquired by force and coercion. The basic pattern is to organize economic flows of energy, goods and symbolic wealth (gold, money) so that they flow from the periphery to the centre.



This pattern was evident in the Roman Empire and the British Empire. It is stating the obvious to note that accruing more wealth through the WTO and free trade agreements is the object of American commercial interests today.



People with a partnership approach consider that community well-being as well as personal well-being is important – and that indeed the two are connected. Concern for community well-being is expressed through volunteer service, antitrust laws, investing in education and preserving the environment. The formation of the United Nations was a step towards a partnership approach to global governance.

Most of us are a mixture of the two value sets. Few of us are totally ruthless dominators, willingly killing for our advantage. And few of us are the other extreme of being selfless saints working full time to make the world a better place.

Within Western culture there is an ongoing tension between the partnership and the dominator value sets. The first city states in the Middle East, like subsequent empires since, were tyrannies. The opportunity for Greek democracy to arise occurred when the Mycenaean empire cut too many trees and induced an ecological collapse. The Mycenaeans were unable to continue to maintain the army necessary to control the Greek peninsula, and so the isolated Greek valleys, each with its own small city, were left to their own devices. Somehow – and I think this is quite miraculous – an impulse to establish public policy through democratic elections and public discussion arose. True, democratic rights were confined to upper class males. Nevertheless, Greek democracy was a major shift towards partnership governance. It was a real contrast to government through individual tyrants, close-knit oligarchies or religious domination.

As I see it, the essence of democracy is community self regulation for community well-being. Perhaps this ideal has never been realized, except in small communities. Democratic institutions can be co-opted by wealthy interests on the one hand, and by demagogues on the other. This is why open debate and a balance of powers is a hallmark of democracy; some balance is found between competing interests and final decisions come closer to supporting community well-being. Mistakes and excesses can be corrected.

This brings us to two fundamental questions. The first question is *will we surrender the capacity for community self regulation in favour of promoting commercial interests?* I hold that surrendering the sometimes awkward mechanisms of democracy in favour of privately negotiated trade agreements and binding dispute resolution by a panel with no judicial review is to surrendered democracy itself. This is fundamentally wrong and should be rejected.

Increasing economic activity may be antithetical to community well-being

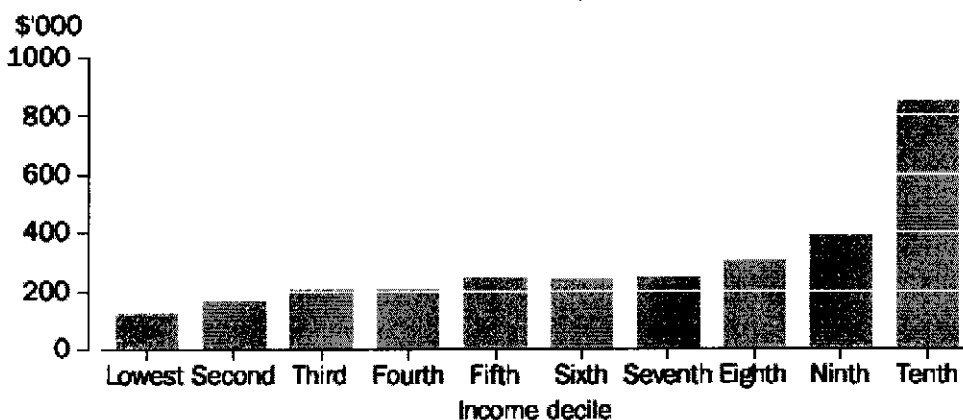
The second question is *will we organize the world as much as possible to support large commercial interests, or will we work to organize society for community well-being?* The way I have put it presumes an opposition between the two. It is the current expression of the age-old tension between people with dominator interests and people with partnership interests. However, there are those who argue that increasing trade and economic activity is essential to foster increased community well-being. For those who tend to believe economists on this point, what I am about to say is counterintuitive, even heretical. *Increased economic flows can make a society less healthy.* It depends on how it is done. But before I give evidence about this from Australia and America, I will set the scene with a brief philosophic comment about wealth.

Money is only a symbol. It represents some sort of exchange value (what an abstract phrase – I'm talking like an economist!). Money is not actually good food, sweet air, great dentistry, wonderful music or satisfying human relationships. In a monetised society money is essential and poverty is terrible. But it is a mistake to think that we automatically increase actual wellbeing in a society by increasing the overall numerical value of symbols in bank ledgers. So in our consideration of the FTA we need to keep our feet on the ground and use our common sense.

Social effects of increasing wealth

Over all, Australia has become more affluent in recent decades. Compared with America, wealth distribution and Australia is quite egalitarian.

**AUSTRALIAN AVERAGE HOUSEHOLD NET WORTH
BY ANNUAL INCOME DECILE,
As at 30 June 2000**



Source: ABS, *Experimental Estimates of the Distribution of Household Wealth, Australia, 1994-2000*

From 1995 to 2000, the amount of wealth held by the top wealth decile appears to have been quite stable - either 43% or 44% in each year, after falling from 49% in 1994. The percentage of total household wealth owned by other wealth deciles has also remained stable over this period. ABS

While the ABS asserts an overall stability in wealth distribution, other sources suggest that Australia is moving toward becoming less economically egalitarian. In 2001 *The Business Review Weekly Richest 200* reported that in 1995 there were 3 billionaires in Australia. By 2001 there were 11 billionaires. The *BRW* predicts on the basis of an expected average annual growth of 8 percent in the assets of the Rich 200, that there will be another 10 billionaires in Australia by 2006.

Now we come to the point. These shifts in economic flows have profound social consequences. With an economy growing at say 4%, and the wealth of the very wealthy increasing at 8%, where does their money come from? Not out of thin air. Not just from overseas investments. Their money accrues through their

ability to suck up assets from the rest of the economy. As they get richer, the lowest levels move closer to poverty. A CSIRO report notes that:

Where average gross income for the most affluent 10% of Australians had increased 3–6 times more than the middle and bottom income distribution between 1982 and 1997 (National Centre for Social & Economic Modelling (NATSEM) 2000). By 2000 more than 1 in 4 Australian children lived in families that relied on social security payments for a substantial part of their income, whereas 10 years before fewer than 1 in 6 children lived in a family on income support. *Once Upon a Fair Go – Patchy Prosperity* CSIRO State of the Environment Report Card

Economic rationalist policies make it easier for people to get rich. We don't know what the actual social effects of alternative policies might have been. We don't know that they would have been any better. But we can assess the results of current policies, and of the larger trend to subsume more of the world to commercial interests. I suggest one crucially telling indicator that we should pay attention to: the physical and mental health of children. If overall the health of children is getting worse, a society is in trouble.

Child health as an indicator of social well-being

From this point of view, Australia is already in trouble. This has been brought to our attention by Dr. Fiona Stanley, an epidemiologist at the University of Western Australia. Dr. Stanley was Australian of the Year last year. She is a dedicated scientific researcher, and she cares passionately about children. She reports

We are observing increases in poor outcomes for children and youth across a wide range of health, development and wellbeing domains. These include things as diverse as low birth weight, child abuse and neglect, behaviour problems, educational problems, mental health problems, substance abuse, unemployment and juvenile crime. The common pattern is that these are increasing in younger and younger children, and in girls as well as boys even for those areas in which girls were rarely observed 20 - 30 years ago, such as aggressive behaviour, substance abuse and violent juvenile crime. .. this pattern is across the whole population.

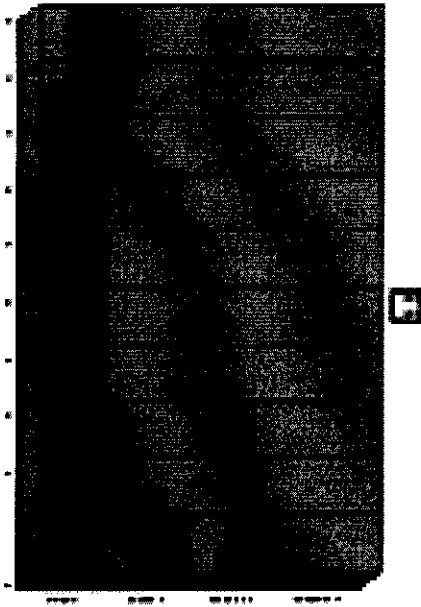
Suicides have increased fourfold in 15-19 year old males since the 1970's and the worrying thing is that the rates are now higher still in 24-35 year olds; nearly 20% of teenagers have a mental health problem. Irreversible brain damage due to non-accidental injury/shaken baby syndrome [has risen] from 4% to 18%.

The Real Brain Drain National Press Club address, August 2003

So here we have it. During a period when Australia has had increasing economic flows socially things have been getting worse. While I don't give the details here, Dr. Stanley herself relates these changes to economic rationalism. Increasing our GDP, through free trade or any other means, will not necessarily improve our society. This does not mean that we should not have trade. It does mean that a sole focus on trade, or commercialism in general, is not the answer.

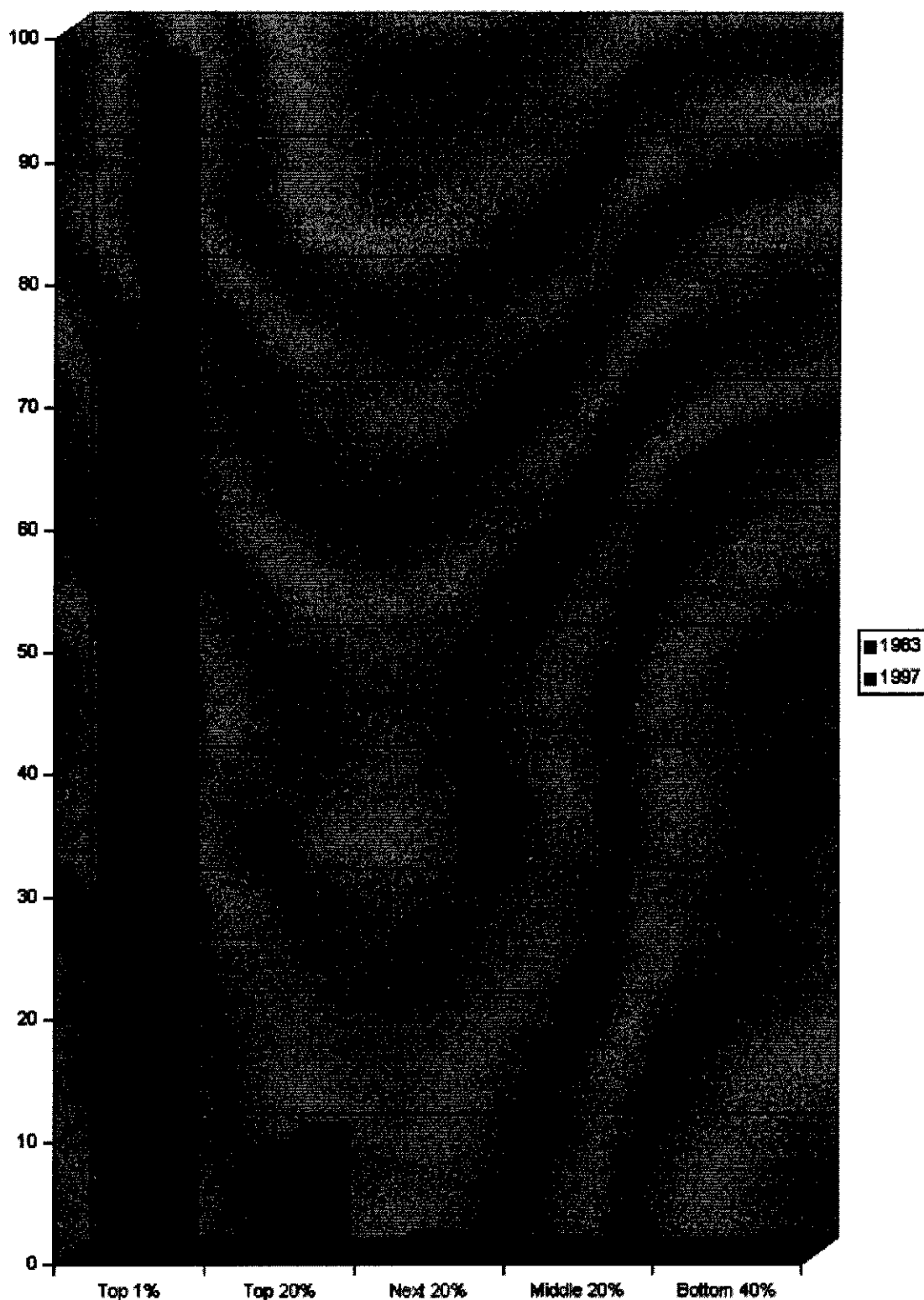
Increased GDP has not benefited most Americans

An avowed purpose of the Free Trade Agreement is to make us closer to the American economy. Before we do that, we should take a closer look at how the American economy has operated recently. The following graph shows that the American economy is far less egalitarian than the Australian economy, and that during the recent American long boom, with its productivity increases and increased financial flows, the top 20% of American families have done much better, the next 40% did worse, and the bottom 40% were far worse off.



The statistics come from Federal Reserve Data as analyzed by Edward Wolff, NYU economics professor. The blue line in each graph shows that particular fifth's net worth in 1983; the red line shows that fifth's net worth in 1997, fourteen years later. The stack on the left represents the assets of the top 20% of American households.

Now we are going to present the same graph, except it will include the increase in assets of the top 1% of American households.



Yet even this graph doesn't tell the whole story. The average wealth of the top 1% of households in 1997 was less than \$10 million. We have left off the billionaires, who have more than 1000 times that amount. A stack of \$10 million in \$100 bills would be 33 feet high. In comparison, a stack of \$10 billion reaches almost to the height of Mount Everest. What this adds up to is that the top 5% of households in United States have as many assets (stocks, bonds, real estate value) as the remaining 95%. The number of billionaires increased in America over the last two decades. So now you know where the money goes. If this seems astonishing to you, a search through Google on *wealth statistics* will confirm the picture.

The main strategies that made such massive wealth accumulation possible are low taxes on even high income earners, low corporate taxes, replacing workers with robots, moving production to low-wage countries, and funding candidates for Congress who would in turn support massive government subsidies to – you guessed it – the large businesses that these families hold stock in.

So much for the trickle-down theory. If we ask *where does the money go*, it goes to make the wealthy wealthier. The American economic system is set up intentionally to make this happen. We may reasonably presume that if the Australian economy becomes integrated with the American economy transnational American companies will work assiduously to make the same thing happened here. Indeed, I think that is the point of their pressure for a FTA.

Ruthless business practices combined with vast wealth are dangerous

I will give one example of business practices that made one family, the Waltons, the wealthiest family in America. Then I will give a small example of how a similar dynamic can happen in Australia if we open ourselves to free trade in services.

Collectively Sam Walton's five heirs of his Wal-Mart fortune have more assets than Bill Gates. How did Walton amass his fortune?

Sam Walton worked out a way to sell goods cheaply to great numbers of people. At first sight this may sound like could business. Doesn't Sam Walton deserve to do well if he can deliver the goods more cheaply? Perhaps so – but when Walton accumulated capital something nasty came in. He developed a strategy of opening stores on the outskirts of town and offering prices that were much lower than those of local retailers. People flocked to his stores, because they were getting good bargains. Through this many local retailers were driven out of business – with disastrous effects on their income, their self-esteem, and on their families and former employees. So now Wal-Mart had a monopoly. The next step was not just to raise prices. It was to consolidate the local stores into a regional centre. So now people could no longer shop locally, but had to drive perhaps 20 miles to get their basic necessities.

What does it mean to destroy someone's livelihood? If that person is a small-business owner it means that he or she shifts from being an independent entrepreneur to either becoming an employee of someone else or unemployed. The transition is agonizing. And the result is bad for the community as well as for the individual – especially when the same commercial dynamic drives down wages. Commercialism of this sort is profoundly destructive, which is why anti-monopoly laws were created.

If we become more integrated with America, is there any reason to think the same thing won't happen here? A friend of mine is an experienced architect. He projects this adverse scenario. As a result of liberalizing trade in services, large American architectural firms come in and compete for local jobs against Australian architectural firms. Having ample financial resources in back of them, they can afford to undercut local architects and architectural firms to the point where the local firms go out of business. Their prices go back up once market competition is reduced. And yes, they may hire some of the local architects who were driven out of business – at vastly reduced wage scales. And where do their profits go? Back to America. Another version of the Wal-Mart pattern. We should not open ourselves to this.

What kind of country is America?

It seems that the Howard government also wants to be closer to America militarily, and that the FTA agreement is part of a package with this in mind. So we may ask *what kind of country is America today?*

First off, it spends more on its military than the next seven or so countries in the world combined. It intends to gain military control of space. Space satellites with high-tech surveillance and weapons will enable it to tyrannize the rest of the world. It has a long history of using its military and other resources to support tyrants like Saddam Hussein on the one hand, and to undermine people like Salvador Allende in Chile who put domestic social values in their countries ahead of American commercial interests. The American

Department of Commerce is happy to broker deals to sell arms to our neighbour, Indonesia, simply because it is good business. The current American administration has announced its willingness to use nuclear weapons. In the last war on Iraq, as well as in this one and in Afghanistan, it has used depleted uranium. When the dust from depleted uranium gets into the lungs can cause both cancer and genetic damage that can be passed on to successive generations. This puts depleted uranium munitions in the class of weapons known as “weapons of mass instruction or indiscriminate effect.”

So again we come to a crucial moral point, although it is hard to find the right language for it. The American confluence of military and commercial interests is... vicious? Psychologically sick? Anti democratic? Tyrannical?

Australia is uniquely blessed. In the near term it will not serve Australia's interests to become more closely allied with a vicious and powerful rogue state. In long run the American Empire, as some call it, may collapse when its self generated contradictions become more than its leadership can deal with. It's massive debt, enlarged by the Iraq war, combined with the prospect of oil prices rising when global oil production peaks, are just two of the issues that will shake America.

Beyond this, for all of us our current global militarized and highly commercialised civilization is both ecologically and socially unsustainable, and we should be making sustainability, not commercialism, our main goal.

We will never become sustainable unless we address ourselves seriously to the question of how to improve ecological and social well-being. As important as commerce is, a single-minded focus on commerce destroys social well-being. By replacing democracy with trade negotiations we make it impossible to readily make the local adjustments necessary to become sustainable.

For these reasons, as well as for others that the commission will have received, Australia should reject this Free Trade Agreement with America.