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*Lincoln-Douglas Debate Resources from FEE*

# FREE VS. FAIR TRADE

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# Introduction

David Veksler

Economists widely agree that trade is economically beneficial. However, in recent decades, there has been increasing criticism of trade from both the left and right.

The left has denounced the exploitation of workers in poor countries, who work in "sweatshop" conditions for low wages. The right has denounced the erosion of domestic industries, and the "unfair" trade practices followed by other countries, resulting in trade deficits.

The Foundation for Economic Education would like to contribute to your research for the 2018–2019 NCFCA Lincoln-Douglas debate resolution. We have advocated sound economic ideas since 1946 and we believe that we have important insights for the negative case on this resolution.

This guide argues that free trade is always the economically and ethically superior policy, even when implemented unilaterally—that is, regardless of what policies other nations follow.

As we will argue, free trade has been proven to increase per-capita incomes and accelerate economic growth. We will show that counter to common myths, trade has actually created a manufacturing boom in the US. We will show that all forms of restraints on trade are on net harmful, that "fair trade" is an incoherent concept, and that all forms of free and voluntary trade are in fact fair.

As you prepare to argue the negative case, you can rely on arguments from classical economists such as David Ricardo, who discovered the principle of comparative advantage, which led the UK to repeal the Corn Laws and become the world's most powerful empire. You will read about Richard Cobden, who saw free trade as removing many of the causes of war. You will discover that free trade is the key to the African renaissance, and how the EU suppresses African industry while they hypocritically champion the value of the EU free trade zone.

We hope these arguments provide a rich source to build your cases. If you have questions or ideas for additional research, feel free to contact me directly at dveksler@fee.org

Best of luck,

David Veksler
Director of Marketing, Foundation for Economic Education
(Douglas MacArthur High School Debate Team Alumni – 1997–1999)

# Free Trade Is the Best Policy, No Matter What

Donald J. Boudreaux

Today's quotation of the day is from Albert Gallatin's January 1832 essay, "Memorial of the Committee of the Free Trade Convention" (available in full at the **Online Library of Liberty**), a part of which is quoted on page 169 of Douglas Irwin's 2017 book, *Clashing Over Commerce* (emphasis added):

> That by multiplying in any country the channels of domestic industry, a greater scope is given to its application, a market more diversified and less liable to be glutted procured to its products, and a larger field opened to every species of skill and talent, is undubitably true. But to direct that industry to unprofitable pursuits which cannot be sustained without exaggerated duties paid by the consumer, and a corresponding national loss, does not open new channels of productive industry, but only diverts it from profitable to unprofitable pursuits to the community. *It is truly remarkable that the advocates of the restrictive system should pretend to consider your memorialists as wild theorists, when there cannot be a plainer matter of fact than that if a man pays two dollars more for his coat, his plough, or the implements of his trade, it is a loss to him, which he must pay out of the proceeds of his industry, and that the aggregate of those individual losses is an actual national loss.*

From late September through early October 1831 there was held in Philadelphia a **Free Trade Convention**, about which I know very little other than what is revealed in this essay by Albert Gallatin.

## Yesterday and Today

During the second quarter of the 19th century in the United States, Kentucky's Henry Clay was the most powerful, vigorous, and (yes) uncompromising opponent of free trade. His "American System," as it was called, was nothing but an early 19th-century version of economic nationalism. Clay and his followers saw the businesses and jobs made possible by government spending and by protective tariffs; they were blind to the businesses and jobs—and consumer goods—denied to the American people by these interventions.

One of the realities made clear by Doug Irwin's account of the debate over trade policy that occurred back then is that the past is indeed prologue. The issues today are the same as they were back then even if the 'feared' trading partner today is different. (Back then that feared trading partner was Great Britain; today it's mostly China.) The economic fallacies that fueled Henry Clay and his movement are identical to those that today fuel the hostility to free trade of the likes of Donald Trump, Wilbur Ross, Peter Navarro, and Steve Bannon. And many of the accusations hurled against free trade by the protectionists of that past era differ in no substantial ways from the accusations hurled today.

There was the *ad hominem*. For example, Clay scurrilously accused the free(r)-trader Albert Gallatin of being hostile to American interests because he, Gallatin, was born in Switzerland.

And there was the simply mistaken—a frequent instance of which is nicely exposed in the above bolded portion of the Gallatin quotation. Protectionists (those whom Jon Murphy more accurately calls "scarcityists"), mistakenly supposing themselves to be profound, back then, as today, accused free traders of being idealists whose theory blinds them to reality. Yet as implied in Gallatin's response, the theory that protectionists dismiss as speculative and unreliable is, really, a straightforward application of simple arithmetic and basic economic analysis: tariffs that force up the prices that domestic citizens pay for goods and services is a loss to those citizens, and because the domestic firms and industries that exist only because of trade restrictions and subsidies are generally ones that operate less efficiently than those domestic firms and industries that are destroyed by such interventions, the amounts of resources necessary to sustain any given standard of living (or rate of economic growth) are greater with such interventions than without. In short, such interventions make most people poorer than they would otherwise be.

## Unproven Free Trade Is a Myth

It is a myth that free trade is unproven in practice. Forget that countries with freer trade have both **higher per-capita incomes** and **faster rates of economic growth**. Look instead at the essentials of the case. Each and every day you trade freely with many merchants. Do you think that you and your family would be enriched if your neighbor extracted punitive payments from you whenever you buy some item that your neighbor judges to be from a seller located too distant from your neighborhood? Every day Arizonans trade freely with Texans and Rhode Islanders. Do you think that Arizonans would be enriched if the government of that state obstructed their ability to trade as they choose with people located in other states?

People trade freely countless times, each and every day. Yes, yes, I'm well aware that such trade isn't ideally free. Occupational-licensing restrictions, for example, unjustly and harmfully obstruct domestic trade. But the fact remains that today within each country—including within the U.S.—trade is not typically obstructed based on geographic location or political boundaries. And therefore people buy and sell freely within countries. If the case for a policy of free trade were not practical—if it were only a theoretical curiosity—then it would be true that ordinary people would be even richer if the state obstructed their abilities to trade with each other domestically.

It's a myth also that the economic case for a policy of free trade in any one country requires that other governments also practice free trade. The case for a policy of free trade is, at bottom, a case for unilateral free trade: while nearly everyone in the world would be better off if all governments adopted policies of free trade, nearly everyone in the home country would be better off if the home government adopts a policy of free trade regardless of the policies of other governments.

Protectionism is a nasty mash of logical fallacies, half-truths, hubris, economic ignorance, and cronyist apologetics.

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# Does "Fair Trade" Help Poor Workers?

Alex Tabarrok

Does "Fair Trade" help poor workers? Probably not says Don Boudreaux in an excellent, short video titled, "Fair Trade: Does it Help Poor Workers?" from the **Everyday Economics** series at **Marginal Revolution University**.[1]

As is well known, however, Don is a rabid, free-market economist with ideological blinders who has been captured by corporate interests.

So let's ignore what Don says and consider what William MacAskill, author of *Doing Good Better* (reviewed **earlier this week**) has to say. No one can fault MacAskill's **charitable bona-fides**:

> MacAskill's own pledge is to donate everything he earns above about $35,000 per year, adjusted using standard economic measures for inflation and cost of living, to the organizations that he believes will do the most good. Since his bar is roughly at the UK median income—such that half the population earns more each year, and half the population earns less—he's certainly not condemning himself to a life of hardship; rather, he is pre-committing to staying roughly in the middle of the national income distribution even as his earnings go up over time.
>
> That said, his pledge means giving away 60 percent of his expected lifetime earnings.
>
> When I ask him the inevitable questions about whether this isn't rather a lot to sacrifice for one person, MacAskill shrugs modestly and smiles broadly. "Imagine you're walking down the street and see a building on fire," he says.

> "You run in, kick the door down—smoke billowing—you run in and save a young child. That would be a pretty amazing day in your life: That's a day that would stay with you forever. Who wouldn't want to have that experience? But the most effective charities can save a life for $4,000, so many of us are lucky enough that we can save a life every year through our donations. When you're able to achieve so much at such low cost to yourself. . .why wouldn't you do that? The only reason not to is that you're stuck in the status quo, where giving away so much of your income seems a little bit odd."

So what are MacAskill's views on Fair Trade? Why they are the same as Don's!

> When you buy fair-trade, you usually aren't giving money to the poorest people in the world. Fairtrade standards are difficult to meet, which means that those in the poorest countries typically can't afford to get Fairtrade certification.
>
> For example, the majority of fair-trade coffee production comes from comparatively rich countries like Mexico and Costa Rica, which are ten times richer than the very poorest countries like Ethiopia. . . .
>
> In buying Fairtrade products, you're at best giving very small amounts of money to people in comparatively well-off countries. You'd do considerably more good by buying cheaper goods and donating the money you save to one of the most cost-effective charities.

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1. Watch the full video on **YouTube**.

# Free Trade Is the Key to Economic Growth

Baruti Libre Kafele

Typically when we watch the news, we are given a conspiracy theory of free trade economically strangling the American economy and destroying the economic plight of ethnic enclaves which are suffering financially like the African-American and Latino communities. This has even been a theme of the current presidential election. We are encouraged to believe that free trade is causing the loss of jobs in America and that it is leading to wide scale unemployment and impoverishment in the American economy. Many people complain about free trade without having an understanding of what free trade actually is. According to investopedia.com, free trade is:

> "the economic policy of not discriminating against imports from and exports to foreign jurisdictions. Buyers and sellers from separate economies may voluntarily trade without the domestic government applying tariffs, quotas, subsidies or prohibitions on their goods and services. Free trade is the opposite of trade protectionism or economic isolationism."

Essentially, free trade gives global citizens the economic freedom to maximize or advance their economic interests as consumers, distributors and producers without government intervention. Hence, the globalization of commerce creates entrepreneurship, economic growth and innovation within a global society, while all protectionism, tariffs and isolation do is cause economic stagnation, unemployment and price inflation in domestic and global economies.

## Jobs Created Exceed Jobs Lost

One may argue that free trade has caused the loss of 5.6 million jobs in the manufacturing sector in the decade of 2000-2010. Ironically however, manufacturing output in the United States has increased by 40% in the past 20 years as the United States economy adjusted to the rate of inflation and produced twice as many products as they have done in any year since 1984! In an interesting paradox, while manufacturing jobs specifically within the textile industry have declined due to competitive prices in China, Bangladesh, and other countries with cheaper markets, there has been an inverse result in productivity in United States' factories.

In 2015, the United States' output of durable goods reached an all-time high. These goods include refined petroleum products, plastics, electronics, aerospace goods, airplanes, chemicals, paper, pharmaceutical products, automobiles, etc. As technological advancement and overseas opportunities increasingly complement the laws of supply and demand, there are opportunities for employers to employ cheap labor overseas.

Ironically, the value of the United States' factories are approximately $2 trillion a year while the gross output of manufacturing industries consists of 36% of the country's gross domestic product. Hence, the manufacturing industries of the United States are worth more than the GDP of Italy, Brazil, and Canada separately. Hence, the opportunities for employment and entrepreneurship are definitely available within this country's borders in certain industries and also internationally.

At the same time, international workers can generate savings to start their own enterprises to compete with other factories that make manufactured goods cheaper, more durable and/or more efficient to produce. Additionally, international free trade gives U.S. consumers and entrepreneurs opportunities to contain consumption and productivity costs due to the competition of international factories—which creates opportunities for wealth accumulation and potential job growth in America.

The federal labor laws which include the minimum wage, minimum work hours, child labor laws and other regulations cause employers to look elsewhere in order for their products to get produced. The reason being is that these regulatory laws that have been enacted and ratified increase the costs of employment for employees whose productivity may not match their compensation and this causes the increase of losses for the businesses and creates the incentive to seek employment alternatives for the purpose of economic survival. Additionally, businesses resort to technology to replace human beings for the purpose of capital maintenance and commercial efficiency. For example, at a local Capital

One bank in the city where I live in New Jersey, the branch decided to terminate the bank tellers and replace them with ATM machines, probably for the aforementioned reasons of containing costs.

Hence, although technological advancement and competitive products at competitive prices lead to the loss of specific jobs, these technological advancements also lead to the creation of new job opportunities.

## What Happens When The Government Impedes Free Trade?

It is certainly not in the interest of a country for its government to implement protectionist or preferential policies to penalize certain countries from trading with one another, because this only leads to economic problems.

Donald Trump and Hillary Clinton are both vehemently critical of job losses in the United States to China and other countries. Trump, for example, calls for economic penalties for companies like General Motors that outsource manufacturing jobs to Mexico. However, history has proven that protectionism, tariffs, and economic isolationism have caused nothing but domestic economic problems and international trade wars. A case in point is the Smoot-Hawley Tariff during the Great Depression which was implemented during President Herbert Hoover's Administration in 1930 and which implemented a 50% increase in import duties to protect the American agricultural industry. This caused other countries to take retaliatory measures that accelerated a 66% decline in world trade between 1929 and 1934. Furthermore, this precipitated a major increase in U.S. unemployment—from 1.8 million to 12.6 million people.

## Free Trade Is The Key To Growth

International businesses, whether they are small and medium sized companies or large corporations like Sony, Toyota, Toshiba, Canon, Samsung, should not suffer just because governmental bureaucrats want to impose preferential policies to benefit certain companies in certain industries; nor should the American consumer who has demands and preferences for international products. All this does is impede overall economic progress mainly at the expense of the middle and lower classes, whether they are employed in a major corporation, involved in international business or are small entrepreneurs. Free trade enables a consumer to voluntarily purchase high quality products which are durable, affordable or sustainable from a producer in another country. Free trade is in the best interest of "the 99 percent."

Free trade is an answer to and ticket out of economic or cultural poverty and stagnation especially for traditionally economically disadvantaged groups in this country like African-Americans, Native Americans, and Latinos. One should not get manipulated by politicians or presidential candidates like Donald Trump and Hillary Clinton who say otherwise. It is arrogant and paternalistic for governments to intervene in the contractual and economical affairs of competent parties who are engaging in commerce. If you have a problem with jobs being outsourced internationally, then you need to create or capitalize on the economic opportunities that abound in this age of globalization and technological advancement. It is by way of global trade, competition, opportunity maximization and consumer satisfaction that economic growth will happen in America through the creation of new jobs that can adapt to the technological changes.

In 1790, 90% of the American workforce was in the agricultural sector and today the sector accounts for only 3%. Therefore, it is modernization which leads to job losses in certain industries. As a result, it is up to you to adapt to economic and social changes in order to get a job in a thriving sector which demands your services and skills. If by chance you lack the skills, then you should consider training and education within that area of specialization. In light of the changes in the interactions between the consumer and producer, then it is up to you to create the job which suits the volatility and elasticities of the new economic dynamics.

In the final analysis, when prices are high and products in the United States are not comparable to those sourced internationally, then free trade is undeniably the best alternative.

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# Free Trade Isn't Killing Jobs

Pierre Lemieux

The **economic argument** for free international trade is basically that people produce in order to consume, not the other way around, so the economic system should be geared to the benefit of the consumer, not the producer. In the economic sense, producers include workers and owners of capital or land, who often join in associations called "**firms**." There are more consumers than producers, as everybody is a consumer but not everybody is a producer; some live off the production of parents, donors, or taxpayers. So there are more **consumers** than **producers**; but this is not the important point.

## Free Trade Helps More Than Hinders

The important point is that **free trade** benefits consumers more than its competitive pressure harms producers. Economic theory provides a nice geometric demonstration of the proposition that the total cost of protectionism for consumers is higher than its total benefits to producers. The demonstration can be (imperfectly) rendered in plain English: if free trade harmed producers more than it benefits consumers, the former could outcompete their foreign competitors by bribing domestic consumers with better prices and still gain compared to ceding the market to foreign producers—and **protectionism** would not be necessary. When domestic producers are unable to compensate consumers for not patronizing foreign suppliers, it means that free trade benefits consumers more than it harms producers.

That free trade would have net benefits is not surprising in light of the theory of comparative advantage, due to 19th-century economist **David Ricardo**. If two countries—that is, all producers in the two countries—produce what they are most efficient at, the total volume of goods available for exchange and consumption will be larger.

A popular objection to these economic arguments is that a consumer cannot benefit from lower prices if he does not have a job. **Since free trade destroys jobs**, it cannot be said to help consumers in general. You can't consume if you lose your job—or you have to consume less by getting a lower paying job or relying on transfers, public (unemployment insurance, social welfare, and such) or private (help from family or charity). Let me call this the "populist" objection to free trade.

A first reply is that availability of jobs is a symptom, not the cause, of prosperity. If jobs were the cause of prosperity, banning agricultural technology would generate much prosperity by dramatically increasing employment in that sector. Nearly 12 million Americans worked in agriculture in 1910 (the year when agricultural employment reached its peak) while they number less than 2.5 million today (for a population three times as large). In the meantime, the total number of jobs in the American economy increased from 37 to 151 million. We should beware of the obsession of job creation, especially by government edict.

Even assuming that the number of jobs is a good indication of **welfare**, the populist objection is not valid. Although some workers can, like other producers, be harmed by competition, free trade does not destroy net jobs. At least as many new jobs appear as old ones disappear.

## Job Creation and Job Destruction

Consider the example of manufacturing. The number of jobs in American manufacturing dropped from its peak of 19 million in 1979 to 12 million today. Most recent job losses in manufacturing come more from the impact of technological progress than from import competition; **economists Michael J. Hicks and Srikant Devaraj estimate that international trade accounts for only 13% of these losses**. And—this is the important point—while manufacturing employment was decreasing, total employment in the economy increased from 99 to 151 million between 1979 and today, for a *net* creation of 52 million jobs. In the meantime, and this is the really important point, **GDP** per capita (the most comprehensive measure of the standard of living) increased by 79%.

Another way to approach the populist objection that free trade destroys jobs is to observe that the main factor in employment is population growth. Employment naturally grows in line with population.

Every new worker who arrives on the labor market creates his own job in the very real sense that he spends as much as he earns (or the rest is invested, creating jobs too); indeed, it is precisely in order to spend an equivalent amount that he starts working and earning an income (a reflection of **Say's law**, recently featured in *The Economist*). The new worker creates his own job by creating another one elsewhere in the economy through his own consumption.

The figure below illustrates the general point by showing the level of civilian employment in relation to the American working-age population (15 to 64 years of age) over the past half-century. Each dot on the chart represents one year. Observe how closely employment growth tracks population growth. A simple regression analysis confirms the visual impression: the coefficient of correlation is 0.992 and is highly statistically significant (at a level of significance much lower than 1%). Because the working population increases with time, the horizontal axis nearly coincides with the chronological order. The drop in the employment towards the end of the curve corresponds to the 2008-2009 recession and the slow recovery that followed.

We thus have both a straightforward economic argument and empirical evidence to the effect that **economic freedom** in general and foreign trade, in particular, do not destroy net jobs in the economy. The number of jobs moves with the number of people who want to work, barring regulatory obstacles created by government.

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# Free Trade Makes People Nicer

Matt Ridley

The "ultimatum game" is a fiendish invention of economists to test people's selfishness. One player is asked to share a windfall of cash with another player, but the entire windfall is canceled if the second player rejects the offer. How much should you share? When people from the Machiguenga tribe in Peru were asked to play this game, they behaved selfishly, wanting to share little of the windfall. Not far away, the Achuar in Ecuador were much more generous, offering almost half the money to the other player—which is roughly how people in the developed world react.

What explains the difference? The Machiguenga are largely isolated from the world of markets and commerce. The Achuar are used to buying and selling to and from strangers at markets. The same pattern emerges throughout 15 small-state societies all over the world, in **a fascinating study** done by the Harvard anthropologist Joe Henrich and his colleagues. The more integrated into the commercial world people are, the more generous they are. As one of the authors, the economist Herb Gintis, summarises the results: "Societies that use markets extensively develop a culture of cooperation, fairness, and respect for the individual."

## Free Trade Means Cooperation

This would not have surprised Montesquieu, who spoke of "sweet commerce", or Voltaire, who marveled at the friendly collaboration of "the Jew, the Mahometan and the Christian" on the floor of the London stock exchange, or Adam Smith, David Ricardo, and Richard Cobden, the radical champions of free trade in the early years of the industrial revolution.

Cobden said: "Free trade is God's diplomacy and there is no other certain way of uniting people in the bonds of peace." He was right.

Recent studies have confirmed that commerce is the main cause of peace. "Within the developing world, economic development leads to interstate peace, whereas democracy does not," **concludes** Faruk Ekmekci of Ipek University in Turkey. The evidence is overwhelming that markets do not just make people richer, they make people nicer too, less likely to fight and more likely to help each other.

So why on earth has it become accepted wisdom that every move towards free markets and free trade is towards selfishness, conflict, and greed, whereas the state is the source of all kindness? When Daniel Hannan launched the Institute for Free Trade at the Foreign Office last week it was attacked by critics as an inappropriately "hard Brexit" initiative, even though free trade has been the British government's ambition on and off since 1846. As Liam Fox put it at the launch: "Long before Brexit and long before the EU, the United Kingdom was the champion of global free trade."

Hannan's critics, such as the misleadingly named campaign **Open Britain**, imply that free trade is unkind in another way: it leads to lower standards of welfare provision, but this is demonstrably nonsense. Is welfare worse in free-trading New Zealand or protectionist Venezuela? In South or North Korea? In Singapore or Burma? The correlation between free trade and high living standards, including high welfare standards, is tight and causal. Government intervention in social policy goes hand in hand with economic development.

## Free Trade Means Enrichment

The astonishing enrichment of the world in the past 50 years, when extreme poverty has fallen from more than 50 percent to below 10 percent of the world population, **could not have happened** without free commerce and the innovation it delivers. No serious economist denies this. The liberalization of world trade since the Second World War has been responsible for making the world not just wealthier but healthier, happier and kinder too. If that sounds incredible to millennials, then perhaps they should ask their professors to give them some less Marx-inspired reading matter.

Ah yes, say Remainers, but look at the Bombardier case. With the help of mercantilist American regulations, big Boeing bullies a rival Canadian aircraft manufacturer with a vital plant in Belfast, reminding us that we need to stay in the European Union so that we can resist such tactics. There are four problems with this argument: first, we are in the EU now; second, being inside the EU has not shielded Airbus from similar disputes with Boeing; third, Britain with its strong defense links to America can lean on America more than Brussels; and fourth and most convincingly, small countries have outperformed big ones in world trade. Look at New Zealand, Iceland, Singapore, and Switzerland.

Remember that the EU and the US have been discussing a free-trade agreement for a third of a century. It always falls foul of protectionist interests on both sides: Italian textiles, French films, American aircrafts. Outside the EU, Britain, the least protectionist of all major economies, would long ago have done a bilateral deal with America and made illegal the imposition of unilateral tariffs on manufactured goods.

The Bombardier case shows that the old approach to anti-dumping does not work in a world of integrated international supply chains, where the effects could be spread all over the globe, damaging consumers all along the way. It does nothing to justify trade blocs but underlines the need to revive the impetus towards world free trade, which is stalling. According to the OECD, the G20 countries were running about 300 non-tariff barriers in 2010. Five years later that number had quadrupled.

As for domestic politics, the champions of markets and enterprise need to recapture the radicalism of Cobden, Ricardo, and Smith. Somehow in recent years, we have let the authoritarians redefine free commerce as a regressive step, oppressive on the workers, yet free trade creates jobs and raises wages. It is the most radical and liberating idea ever conceived: that people should be free to exchange goods and services with each other as they please, whether they live in different villages, cities or countries, and without governments being able to stop them.

The Conservatives cannot compete with Labour by offering pale imitations of its patronizing paternalism. They should offer the young something more revolutionary, liberating, egalitarian, disruptive, co-operative and democratic than stale statism. It's called freedom.

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Matt Ridley is a journalist and author. His most recent book is 'The Evolution of Everything: How Ideas Emerge' (Fourth Estate).

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# How Free Trade Triumphed and Made Europe Great

Richard M. Ebeling

We are in the midst of the centenary of the First World War, which was fought from 1914 to 1918. But, in fact, the true first modern world war enveloped Europe and other parts of the globe more than a century earlier from 1791 to 1815, during which first Revolutionary and then Napoleonic France was at war with virtually all the nations of Europe.

Death and destruction followed everywhere as the French armies invaded and occupied countries and then were resisted and driven out. Historian Robert Mackenzie explained the conflict in his 1882 history of the nineteenth century:

> At the opening of the Nineteenth Century all Europe was occupied with war. The European people then numbered one hundred and seventy million, and of these four million were set apart, by their own choice or the decree of their governments, to the business of fighting. They were withdrawn from the occupations of peace, and maintained at enormous cost, expressly to harm their fellowmen. The interests of peace withered in the storm; the energies of all nations, the fruits of all industries were poured forth in the effort to destroy.
>
> From the utmost North to the shores of the Mediterranean, from the confines of Asia to the Atlantic, men toiled to burn each other's cities, to waste each other's fields, to destroy each other's lives. In some lands there was heard the shout of victory, in some the wail of defeat. In all the ruinous waste of war produced bitter poverty; grief and fear were in every home . . . Peace, it has been said, is the dream of the wise, but war is the history of man.

## Economic Warfare to Beggar-Thy-Neighbor

Matching the physical warfare of armies clashing and conquering peoples and places, the combatants introduced methods of economic warfare as well. In 1806 and 1807, Napoleon imposed what has become known as the Continental System, under which the French government attempted to restrict the importation of any goods arriving from Great Britain into countries occupied by or allied with France. In addition, the French navy imposed a blockade around the British Isles in an attempt to prevent war-supporting materials from landing in any British port.

The British imposed their own counter-blockade in the Atlantic and along the European coast against neutral ships trading with France or its allies. Soon there emerged a debate within British political and commercial circles as to whether or not it did any really serious harm to Britain's material well-being if it was not able to trade with many of the countries on the European continent, including France.

After all, it was argued that Great Britain was a productive and efficient nation filled with industrious people in agriculture and manufacturing. What essential material loss was suffered from this lack of trade? It was true that there might be some goods and materials that could not be produced or found within the British Isles. And there might be some goods that, indeed, could be purchased for less from some nations at a lower cost.

But the fact was that Great Britain had an absolute advantage in the production of many of those goods previously imported. That is, the British producer could make any one of those products at a lower or equal "cost" in terms of time, labor and resources, than any of the foreign countries from which those goods were obtained in the past. Thus, British producers could supply them just as well, and less expensively, so that there was no great loss from the inability to trade with other nations. Indeed, Britain might even be better off.

## The "Wonderful Opulence" from Freedom of Trade

This was challenged by a number of political economists, of whom the most important were Robert Torrens, James Mill, and David Ricardo. James Mill (1773-1836), in his *Commerce Defended* (1808) reminded his readers that individuals and nations only trade with each other when the costs of making something at home is greater than purchasing it from another in a different location or foreign land. Mill explained:

> The commerce of one country with another is in fact merely an extension of that division of labor by which so many benefits are conferred upon the human race. As the same country is rendered the richer by the trade of one province with another; as its labor becomes thus infinitely more divided, and more productive than it could otherwise have been, and as the mutual supply to each other of all the accommodations which one province has and another wants, multiplies the accommodations of the whole, and the country becomes thus in a wonderful degree more opulent and happy; the same beautiful train of consequences is observable in the world at large, that great empire, of which the different kingdoms and tribes of men may be regarded as the provinces.
>
> In this magnificent empire too one province is favorable to the production of one species of accommodation and another province to another. By their mutual intercourse they are enabled to sort and distribute their labor as most peculiarly suits the genius of each particular spot. The labor of the human race thus becomes much more productive, and every specie of accommodation is afforded in much greater abundance.

By this means, a country such as Great Britain, James Mill continued, may far better fulfill not only a provision of its essentials and necessities, but conveniences and luxuries that would raise the standard of living of all, including that of the common members of the society far below those of wealth and aristocratic landed possession. It actually served as an effective means to reduce the economic inequalities present in society by making more and less expensive goods available to the "working class."

## Comparative Advantage and the Benefits for All from Trade

In addition, Mill and David Ricardo argued that while a country like Great Britain may have an absolute advantage in the production of many goods over other countries, nonetheless, British producers were most likely more efficient and productive at some things compared to others, in relation to potential trading partners. Great Britain would be better off if it specialized in those lines of production, therefore, in which it had a comparative advantage, and buy other goods from less efficient producers in other countries.

The concept of comparative advantage was made most famous, perhaps, through its presentation in David Ricardo's *The Principles of Political Economy and Taxation* (1817), though both Robert Torrens and James Mill had explained the general idea before him. Ricardo, too, emphasized the general benefits arising from a freedom of trade:

> Under a system of perfectly free commerce, each country devotes its capital and labor to such employment as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labor most effectively and most economically; while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn [wheat] shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

With a slight variation on the example given by Ricardo about comparative advantage, suppose that an English worker can produce one yard of cloth in four hours and takes one hour to harvest a bushel of potatoes, while an Irish worker takes 12 hours to manufacture that yard of cloth and two hours to harvest a comparable bushel of potatoes. England clearly is three times as productive as Ireland in cloth production and twice as productive in harvesting potatoes.

But equally clear is the fact that England is comparatively more cost-efficient in cloth manufacturing. That is, when England foregoes the manufacture of a yard of cloth, it can harvest four bushels of potatoes. But when Ireland foregoes the manufacture of a yard of cloth, it can harvest six bushels of potatoes.

If England and Ireland were to trade cloth for potatoes at a price ratio of, say, one yard of cloth for five bushels of potatoes, both nations could be better off, with England specializing in cloth manufacturing and Ireland in potato farming. England would receive five bushels of potatoes for a yard of cloth, rather than four bushels if it grew and harvested all the potatoes it consumed. And Ireland would receive a yard of cloth for only giving up five bushels of potatoes, rather than the six bushels if it manufactured at home all of the cloth it used.

Properly understood, the theory of comparative advantage shows that all individuals and all nations may find their place at the global table of commerce and trade. That both the "strong" and the "weak," the most and less productive and efficient, each may find a niche in the international division of labor by which all of humanity may improve their circumstances by mutually bettering the conditions of others in an encompassing world market. Britain, therefore, was worse off than it materially and economically could be due to government-imposed trade barriers and restrictions that hindered the free and competitive association among men.

## The Corn Laws Tighten the Trade Restrictions

However, when Napoleon was defeated in 1815, rather than an easing of the regulations and controls over trade, the British government intensified them. It was feared that with the coming of peace, and an opening of international trade with the European continent, Great Britain would be "flooded" with cheap agricultural imports that would "ruin" the landowners, many of whom were the landed aristocracy.

Thus, in 1815, Parliament passed the Corn Laws, establishing a high sliding import tax on foreign grown wheat. That is, the lower the domestic price of wheat was to decline, the higher the import duty on foreign wheat. Or the other way around, only as the domestic price of wheat went up could any foreign supplier of wheat find it possible to sell wheat in Great Britain after paying a slightly reduced import tax, and still make some profit from doing so.

The protectionist trade barriers not only kept the cost of food high for the average worker, but they also made it costly to import other raw materials and resources from abroad for British manufacturing, which limited the cost efficiencies of industrial development for both British domestic sales and export business.

## The Anti-Corn Law League and the Case for Free Trade

In 1820, a group of British industrialists issued a Merchant's Petition declaring that they were "against every restrictive regulation of trade, not essential to the revenue, against all duties merely protective from foreign competition." In 1830, Sir Henry Parnell, a longtime chairman of the finance committee of the House of Commons, published a book entitled *On Financial Reform*. In it, he declared:

> If once men were allowed to take their own way, they would very soon, to the great advantage of society, undeceive the world of the error of restricting trade, and show that the passage of merchandise from one state to another ought to be as free as air and water. Every country should be as a general and common fair for the sale of goods, and the individual and nation that makes the best commodity should find the greatest advantage.

In 1836, the Anti-Corn Law Association was formed in London, which in 1839 was renamed the Anti-Corn Law League in Manchester. For the next seven years, under the masterful and powerful leadership of Richard Cobden and John Bright, the league fought unstintingly for the repeal of the Corn Laws and for the establishment of total free trade in the British Empire.

Throughout the cities, towns, and villages of Great Britain, Anti-Corn Law League chapters were opened. Hundreds of thousands of dollars in voluntary donations were collected to fund rallies, meetings, public lectures, and debates. The league organized a vast publishing campaign of books, monographs, and pamphlets advocating the repeal of all protectionist restrictions and the freeing of all trade and commerce from government controls.

## Richard Cobden and the Call for Unilateral Free Trade

From the beginning, in making his case for free trade, Richard Cobden (1804-1865) saw the breaking down of trade barriers as a powerful avenue for depoliticizing human relationships. By privatizing all market transactions between individuals of different countries, he said, free trade would assist in removing many of the causes of war.

"As little intercourse as possible between Governments," Cobden declared, "as much connection as possible between the nations of the world." To emphasize this, the slogan of the Anti-Corn Law League became "Free Trade, Peace and Good-Will Among Nations."

Furthermore, Cobden and the Anti-Corn Law League made the case for unilateral free trade. Years later Richard Cobden explained:

> We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better, for we discovered so much suspicion of the motives of England, that it was lending an argument to the protectionists abroad to incite the popular feeling against the free-traders . . . To take away this pretense, we avowed our total indifference whether other nations became free-traders or not; but we should abolish Protection for our own selves, and leave other countries to take whatever course they liked best.

## Sir Robert Peel and the End to the Corn Laws

In 1841, Sir Robert Peel (1788-1850) became prime minister for the Tory Party, determined to maintain the Corn Laws as a cornerstone of British foreign economic policy. But through one of those ironies of history, the man appointed to lead the defense of protectionism ended up advocating and overseeing the abolition of protectionism in Great Britain.

Over the next several years, Peel's government lowered and, in some cases, eliminated many of the trade restrictions on manufacturing and industrial goods, but he would not reduce the trade barriers on agriculture.

Under the unrelenting arguments of the free traders, Peel finally admitted, in 1843, during a debate in the House of Commons, "I am bound to say that it is our interest to buy cheap, whether other countries will buy cheap or no."

In 1845, of the 813 commodities on the import tariff restriction list, 430 were placed on the free-trade list. But, still, Peel was unwilling to give way on the Corn Laws. But in the fall of 1845, the worst rains in living memory hit the British Isles, and the domestic food crops were devastated. Food supplies declined, bread prices rose dramatically, and the potato harvest was destroyed in Ireland, threatening mass starvation.

Young boys could be heard in the cities saying, "I be protected and I be starving." Daniel O'Connell, a leading Irish member of Parliament, led demonstrations in Ireland, in which a cannon would be dragged through the streets to which was attached a sign saying, "Free trade or this."

In November 1845, the leaders of both the Tory and Whig parties came out for repeal of the Corn Laws. In January 1846, Robert Peel told the House of Commons that the Corn Laws would be abolished. On February 27, the resolution was approved, and the Corn Importation Bill left the House of Commons on May 16, after passing on the third reading. The Duke of Wellington speedily ushered the bill through the House of Lords, and free trade became the law of the land in Great Britain on June 25, 1846.

Angered by his surrender to the free traders, the protectionist Tories forced Sir Robert Peel to resign from the position of prime minister the very same day free trade was triumphant in Britain. In his final speech before stepping down, Peel declared that he hoped that whatever government was now formed, it would continue the "application of those principles which tend to establish a freer intercourse with other nations." And Sir Robert Peel went on to say:

> If other countries choose to buy in the dearest market, such an option on their part constitutes no reason why we should not be permitted to buy in the cheapest.
>
> I trust the Government . . . will not resume the policy which they and we have felt most inconvenient, namely, the haggling with foreign countries about reciprocal concessions, instead of taking the independent course which we believe conducive to our own interests.

> Let us trust to the influence of public opinion in other countries—let us trust that our example, with the proof of practical benefit we derive from it, will at no remote period insure the adoption of the principles on which we have acted, rather than defer indefinitely by delay equivalent concessions from other countries.

The cultivation and spreading of the ideas of economic liberty and free trade over many years meant that when a crisis came in the form of the torrential rains and the ruining of the British crops, the intellectual and policy environment had been sufficiently prepared to persuade even many in the ruling protectionist Tory party that only freedom of trade and unhindered commerce could both alleviate the hardships of the poor and starving, and show the way to rising prosperity for all after the crisis had passed. It highlights that it is often the particular and unique convergence of ideas and circumstances that bring about significant change—for both good and bad.

Within three years—by 1849—not only were the Corn Laws gone, but also were the remaining Navigation Acts carried over from the eighteenth century that had required goods being imported into Britain to be carried on British ships. From then on, both goods and merchant vessels from any land could arrive in Great Britain "as free as air and water," as Henry Parnell had wished it to be in 1830.

## The Free Movement of Men, Money, and Goods

Great Britain became the first country in the world to institute a unilateral policy of free trade. For the rest of the nineteenth century—indeed, until the dark forces of collectivism enveloped Europe during World War I—the British Empire was open to the entire world for the free movement of men, money, and goods.

Its economic success served as a bright, principled example to the rest of the globe, many of whose member countries followed the British lead in establishing, if not complete free trade, at least regimes of much greater freedom of trade and commerce.

British free trade policy helped to usher in the age of nineteenth-century free trade, and fostered what has been called the classical liberal era of "the three freedoms" which only came to an end with the First World War in 1914. The German free market economist Gustav Stolper explained these three freedoms in his book, *This Age of Fable* (1942), written while in exile in America during the Second World War:

> They were: freedom of movement for men, for goods and for money. Everyone could leave his country when he wanted and travel or migrate wherever he pleased without a passport. The only European country that demanded passports (not even visas!) was Russia, looked at askance for her backwardness with an almost contemptuous smile. Who wanted to travel to Russia anyway? . . .
>
> There were still customs barriers on the European continent, it is true. But the vast British Empire was free-trade territory open to all in free competition, and several other European countries, such as the Netherlands, Belgium, Scandinavia, came close to free trade.
>
> For a time the Great Powers on the European continent seemed to veer in the same direction. In the sixties of the nineteenth century the conviction was general that international free trade was the future. The subsequent decades did not quite fulfill that promise. In the late seventies reactionary trends set in. But looking back at the methods and the degree of protectionism built up at that time we are seized with nostalgic envy. Whether a bit higher or a bit lower, tariffs never checked the free flow of goods. All they affected was some minor price changes, presumably mirroring some vested interest.
>
> And the most natural of all was the free movement of money. Year in, year out, billions were invested by the great industrial European Powers in foreign countries, European and non-European . . . These billions were regarded as safe investments with attractive yields, desirable for creditors as well as debtors, with no doubts about the eventual return of both interest and principal.

The nineteenth-century victory of free trade over Mercantilism and Protectionism represented one of the great triumphs in the history of classical liberalism. It was the achievement of the Scottish Moral Philosophers and those that are now referred to as the “Classical

Economists" in demonstrating the spontaneous order and coordination arising from a free, competitive market system—Adam Smith's "system of natural liberty" and the cooperative gains for all through a system of division of labor.

The momentous importance in human history of this triumph is not always appreciated for what it was: a crucial institutional transformation that heralded the beginning of the material and cultural improvement of mankind through the private and peaceful associations of humanity for the mutual betterment of the mass of mankind. This transformation continues today, even in the face of the reactionary return to paternalistic government and political interference with human life over the last century.

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# Is Fair Trade a Fair Deal?

Gene Callahan

We've all seen the signs in our local cafes, boasting something like: "We proudly sell coffee brewed with Fair Trade coffee beans, acquired at a price that permits sustainable farming and pays growers a living wage." These posters are part of a popular trend in "progressive" circles to promote "fair trade." For some reason, perhaps because many of these folks get really hyped up on Joe every day, fair trade in coffee seems to be the chief focus of the movement.

According to the latest data I could turn up on the Internet, fair-trade coffee buyers must pay at least $1.50 per pound if the spot price on the commodities market is lower than that figure. If the market price is higher, they will pay a 5-cent-per-pound premium over the going rate. (The exact current numbers, if they have changed, are unimportant to our analysis.) I'm not clear how the "fair" price was determined to be $1.50, rather than $1.46 or $1.59 or even $20.00, but so be it. The fair traders evidently believe that growers who cannot make a profit at the market price ought to be helped to stay in business anyway. (To what extent the current market price is a free-market price will be examined shortly.) They find it unfair that, in the words of the website Global Exchange: "Many small coffee farmers receive prices for their coffee that are less than the costs of production, forcing them into a cycle of poverty and debt." (**https://globalexchange.org/campaigns/legacy-campaigns/fair-trade/**.)

There are two possible causes of the situation described by Global Exchange. In some cases it may be that a particular farmer could run his business profitably except that he is competing against others who receive some form of state-granted privilege, for instance, a direct subsidy from their own government or favorable terms of trade from some coffee-importing country. That is clearly unjust, but I contend that the best way to address such injustice is to eliminate the favoritism, rather than trying to compensate for it.

On the other hand, considering that the phenomenon of unprofitable coffee farmers is widespread, it also appears likely that there are simply too many producers in the world relative to the demand for their output. (And, of course, for any particular instance of a money-losing plantation, both factors may be relevant: the farm in question might do better than it does at present if it faced no subsidized competitors, while still falling short of profitability.) To whatever extent the second cause is to blame for the plight of growers, the only long-term, effective remedy is that a sufficient number of those farming at a loss exit the industry so as to permit the remaining producers to operate at a profit. (I am using "profit" here in the accounting sense, meaning an excess of income over expenses, and not in the economic sense of an above-normal return on capital.)

Advising struggling Third World coffee farmers simply to abandon their trade and find another way to make a living may seem flippant and heartless, especially coming from a well-off First World resident who is not confronted with such a daunting prospect. But I suggest that the compassionate concern apparently motivating that initial reaction is only superficial since it ignores two hard realities. First, continuing to operate a money-losing business in the absence of a scheme that plausibly could reverse its fortunes merely makes one's financial predicament more and more dire. If the situation does not appear likely to change for the foreseeable future, then even relaxing in a hammock all day is a better business plan than continuing to grow coffee at a loss. The former option at least stops the bleeding.

Second, it is ludicrous to imagine that a social arrangement is sustainable in which anyone who chooses to persist in a money-losing occupation is entitled to be supported in his obstinacy by the rest of his society. If all members of a society decided to follow their own inner calling without regard to the needs and desires of their fellows, soon enough there would be no resources available to support the pursuit of their visions. A prosperous society can afford to maintain a certain number of commercially disdainful artists, mendicant religious ascetics, selfless social reformers, unworldly scholars, and carefree "dharma bums," but only through the efforts of the bulk of its members who grow food, build houses, produce clothing, treat diseases, collect garbage, discourage criminality and violence, and perform all of the other jobs meeting the more mundane requirements of orderly social existence.

Since the very possibility of following a way of life indifferent to material concerns depends on the output of a multitude of others who are attending to those matters, people choosing the former course have no right to demand as their due any share of the resources produced by those opting for the latter course; rather, the visionaries' just claim for support could lie only in persuading their more-worldly companions voluntarily to aid them in their mission. It is the responsibility of every minimally functional adult to discover how she can perform some activity that others value enough to provide her with her sustenance, whether those others express that valuation by commercial transactions or ideal-inspired donations.

In light of the inescapable requirement that, for a society to continue, its members on net must engage in genuinely productive—meaning remunerative—activities, I can conceive of no plausible case for singling out coffee farmers as members of a special class that is exempt from pulling at least its own weight.

If we reject on principle the notion that any interest group has a rightful claim to such a privileged economic status, it does not imply that we lack sympathy for the real hardships likely to face a poor, largely uneducated peasant whose whole working life has been spent farming coffee and who must abandon the one occupation he knows well for the uncertain promise that he can do better elsewhere. But I suggest that those seeking to ameliorate that peasant's plight are well advised to direct whatever funds and energy they would devote to that aim toward helping him learn a new, more viable trade rather than using them to postpone the day when he must face up to his real situation.

Somewhat ironically, if fair traders choose to follow the second alternative, it is likely they will wind up even further depressing the coffee price confronting any farmers who are not producing fair-trade beans, since each consumer who switches to the fair-trade product is one less buyer for the "un-fair" coffee traded on the commodity market. "But," fair traders may protest, "our ultimate goal is that all coffee purchased be fair-trade coffee, so that all growers will receive the higher, fair-trade price!" However, even if that seemingly implausible scenario comes to be realized, the fair-trade movement still could not succeed in securing for every current coffee farmer a higher income than he receives today. A fundamental principle of economics is that the quantity of a good demanded drops when its price increases, meaning that at the universally higher price for coffee the fair-trade campaign would achieve by reaching its final aim, consumers would drink less of the beverage and the current glut of coffee farmers only would be exacerbated.

I suggest that this belief in the power of some concerned body—be it composed of government officials, economic "experts," religious authorities, or social activists—to discern some "just price" for a good, other than the one emerging from the market process, is the most fundamental misunderstanding bedeviling the fair-trade movement.

## Arbitrary-Selection

However, that is not the only problem with its present modus operandi. At least in its current corporate embodiment in the company bearing the name TransFair USA, which is the entity that officially labels certain coffees "Fair Trade," the movement appears somewhat arbitrary about which producers are to be blessed with the label. Kerry Howley, writing in the March 2006 *Reason* magazine (**http://reason.com/archives/2006/03/01/absolution-in-your-cup**), describes the predicament of farmers like Gregorio Martinez, who owns a small, family-operated plantation in Honduras. In the course of operating his business he overcame severe hardships, including the destruction of an entire year's crop by Hurricane Mitch and the threat of imminent foreclosure, to eventually win an important international prize for his product. It might seem that Martinez is just the kind of farmer the fair-trade movement ought to be promoting, but TransFair USA will only certify growers who are part of a cooperative, and so he cannot sell his beans with the "Fair Trade" label. Similarly, in Africa, many coffee farms are deemed ineligible for the label because they are run in a more traditional tribal style rather than in the democratic fashion demanded by the Eurocentric arbiters of who deserves the "Fair Trade" imprimatur.

Marching under the fair-trade banner along with such dubious company are some genuinely promising initiatives. For instance, the effort to convince consumers to purchase "shade-grown" coffee instead of coffee produced in the monocultural method more common today, in which the crop is grown in a cleared field, is a plausible way to help maintain biodiversity. The natural setting of the coffee plant is as an understory shrub in dense forests, meaning that farmers can grow it under a canopy of trees, which may yield profitable crops themselves. Growing coffee under shade certainly results in a more natural environment than having large swathes of land occupied by only one plant species; it's an environment much friendlier to animal life and perhaps even helpful in slowing global warming. And consumers who buy shade-grown coffee at a higher price than that of coffee grown on a monocultural plantation are not attempting to supplant the market process with their own, arbitrary judgments about what various goods "ought" to cost, but are acting through that process to express their preference for a healthier, more vital environment. Indeed, to an extent that could only be determined by a detailed historical study quite beyond the scope and aim of this article, it was not the market that chose the current predominance of high-tech, monocultural coffee production, but governmental policies. As Deborah James of the Center for Economic and Policy Research notes, "In the 1970s the United States Agency for International Development (USAID) gave over $80 million to coffee plantations in Latin America to 'modernize'—to strip coffee of shade trees and purchase chemical pesticides and fertilizers." (**https://nacla.org/article/justice-and-java-coffee-fair-trade-market**.)

"Bird-friendly" coffee, as far as I can determine by my (admittedly limited) reading on the subject, is just an alternate name for "shade-grown" coffee—the trees above the coffee plants provide homes and resting places for birds—so buying it is similarly defensible. And if organic farming is really preferable to "chemical farming"—which is a disputed contention, since it is unclear where all the inputs needed for productive organic farming, such as manure, would come from if everyone forswore industrially manufactured fertilizers and pesticides—then buying organic coffee may also make sense.

Another plank of the fair-trade platform, advocating that consumers purchase coffee only from producers who embrace a minimum standard of decent working conditions for the agricultural laborers growing and harvesting their beans, cannot be ruled out on its face as a possible means of improving the lot of those impoverished workers. If some relatively wealthy residents of developed countries are willing to pay a higher coffee price to benefit poor farm hands, their intention is entirely laudable. However, I think the right approach here is to shop for a guarantee of labor standards while letting the market determine what the price for those standards will be, not to attempt to guess at a "just" price and pray that it makes everything all right.

Furthermore, anyone deciding to pursue this course should remain keenly aware there is no "silver bullet" with which to slay the beast named Third World Poverty. Even given that consumers are willing to pay a higher price for coffee produced under stricter labor standards, that labor will still be more costly to the farm owner, meaning that, at the margin, he will find it profitable to use more capital, such as machines or fertilizer, and less labor than he would under less-stringent labor requirements. It is inevitable that fewer workers will be employed under the improved conditions than would have been in their absence. The net result still may be preferable to the situation that existed before the consumers' campaign for higher labor standards. But if activists are really concerned about the well-being of the people they purport to be helping, and not just their own satisfaction in having adopted a noble cause, then their judgment of whether a real improvement is likely to occur ought to be based on both the positive and negative effects of their actions and not on a naïve faith that good intentions necessarily yield good outcomes.

The fair traders' broad criticisms of the current institutional foundation on which the global coffee industry is built also are justified, at least for those who advocate a free society, since the current world coffee market could hardly be termed "free." The coffee market itself is directly subject to many politically motivated distortions. For example, Kendra Okonski of the London-based International Policy Network points to recent policies adopted by the government of Vietnam as contributing significantly to the "coffee crisis" (**https://www.globalpolicy.org/component/content/article/213/45624.html**). State officials, encouraged by international agencies to undertake "market reforms," decided to turn the country into a major coffee exporter, with the result that the nation, as of 2006, was the world's second-largest producer (**https://en.wikipedia.org/wiki/Economics_of_coffee**). The government subsidized producers, assisted in its project by low-cost loans to Vietnamese coffee farmers made by French, German, and Swiss government aid agencies, at a time when coffee prices were high.

But only looking at direct state interventions in the coffee market would seriously underestimate the full impact of state policies on the industry. As Okonski notes, an even "bigger problem is highly subsidized farmers in wealthy countries. Huge subsidies to farmers in parts of the West mean that farmers in poor countries cannot diversify their production, because they cannot access these markets. Poor farmers choose to produce coffee, cocoa and other commodities because they have few other options with which to generate income." Furthermore, developed countries put high tariffs and import quotas on processed agricultural goods, discouraging the development of value-added processing industries in the Third World.

## Land Theft

The final major deviation of the contemporary coffee market from a genuinely free market that I will note is that the existing pattern of land holdings, in all countries but especially in many of the Third World nations that produce the crop, is hardly the outcome of purely voluntary exchanges. Rather, it owes much of its current shape to past acts of theft, fraud, and highly coercive or manipulated transactions masquerading as trades on a free market. Indigenous people robbed of the land that supported them, land with which their intimate familiarity may have been their most valuable social capital, often were left with no better option than to toil at the behest of their expropriators on whatever miserable terms they were offered, and the lamentable effects of such injustices are still with us today.

As a result of such recent government interventions and past exploitations, farmers who are not the beneficiaries of policy favoritism may find themselves operating at a great disadvantage compared to those who are luckier in that respect. That situation is certainly deplorable. But I can't see that consumer action would be a promising way to rectify those inequities. How can a coffee shopper be expected to keep track of just which producers are getting just what advantages due to government policies and correctly calculate just what price he should pay to offset the effects of those state-granted privileges? No, it seems to me that the only sensible approach is to fight against the unfair policies directly, at the ballot box, through op-eds, by lobbying, and so on. Perhaps individual buying decisions can have some impact in the meantime, but their effect is likely to be minuscule compared to the scope of the problems.

In short, I see the Fair Trade movement as embodying a mixture of sound ideas for improving the state of the coffee industry and well-meaning but misguided attempts to fight the realities of supply and demand. The latter stem, I believe, from the misconception, common in Progressive circles, that the free market is a merely contingent feature of human social life, rigged up by the powerful to enable their exploitation of the weak. To the contrary, as brilliantly demonstrated by Ludwig von Mises and F. A. Hayek, the market process is the only method for rationally allocating scarce resources in any advanced economy. The mistaken view of many Progressives stems, to some extent, from a simple lack of economic understanding. But their mistrust of free markets also is bolstered by the fact that apologists for the many current situations in which the powerful have manipulated government rules and policies to entrench and increase their privileged positions in society often attempt to disguise the true character of what is going on by claiming that those outcomes are the result of free-market decisions, and, as such, perfectly just. Therefore, it is vital that advocates of truly free markets work to expose such deceit for what it is.

A genuinely free market favors no one except those who best can produce the goods desired by consumers, and no participant in the market process can gain an elevated status in society that is exempt from the necessity to continue to serve the interests of consumers in the future. If Progressives, who typically are driven by a truly commendable desire for a fair society, come to recognize that moving toward genuinely free markets will advance, and not hinder, the achievement of their goals, then their efforts will achieve much better results, to the benefit of everyone except the entrenched interests that profit from the current, government-distorted markets.

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# No, Free Trade Does Not Hurt the Economy

Benjamin Powell

Economists have known that international trade enhances the wealth of trading nations since the publication of Adam Smith's *The Wealth of Nations* in 1776. In fact, probably no other topic commands as much agreement among economists today.

Donald Trump and Hillary Clinton not only fail to grasp this basic point, they also turn the logic of international trade on its head.

On Trump's campaign website he claims, "We're losing $500 billion a year to China. Losing billions and billions to Japan, and Vietnam, and India, and Mexico is beating us . . . in trade."

What the heck does "losing" and "beating us" even mean?

The United States imported nearly $500 billion in goods and services from China in 2015. But those imports are gains, not losses. Each one is a valuable good or service that an American enjoys. To obtain the benefits these imports provide, Americans send their own goods, services and assets to China in exchange.

A trade involves cooperation between the individuals making the exchange. Each party trades only because they believe they will be better off as a result. No one is "beaten."

But what if other countries don't play fair? Clinton claims she will "stand up to foreign countries that aren't playing by the rules—like China is doing right now with steel." The Chinese government subsidizes steel production, but so what?

When the Chinese government does this, it taxes wealth away from its citizens in order to send Americans steel at a lower price than it otherwise could. Americans benefit from the steel imports and send fewer resources to China in exchange. That makes Americans wealthier.

Of course when America imports goods, its mix of jobs changes. Americans who work in industries that compete with imports can face layoffs. However, when US industries shrink because of imports, American labor and capital are freed up for other industries where they can be more productive. The mix, not the number, of jobs changes.

In fact, the classic case for free trade stands on this reshuffling. Without it the gains from trade disappear.

## Trading to Create Jobs

Both candidates would have us think that trade has destroyed American manufacturing. Nothing could be further from the truth. American manufacturing output is near an all-time high. International trade and improvements in technology have made greater productivity possible.

It is true, however, that the number of manufacturing jobs has decreased. But that means it takes fewer workers to produce more goods. The workers freed from manufacturing are now available to create valuable services elsewhere in the economy.

The increase in manufacturing jobs in the middle of the 20th century was only possible because the increase in agricultural productivity freed people from the farm while still enabling us to fill our bellies. Similarly, increases in manufacturing productivity allow our economy to create more valuable services jobs.

Unfortunately, as a Bloomberg poll indicated early this year, 65 percent of Americans believe the government should restrict trade even more and that this would protect American jobs. Unless we improve economic literacy, demagogues from both major political parties will continue to pander to people's prejudices.

Economists need to help break this vicious cycle by better communicating to the public that international trade is a win-win scenario.

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# The Case Against Managed Fair Trade and Strategic Trade

Shyam J. Kamath

The administration of President William Jefferson Clinton was voted into power in 1992 by a minority of the American electorate on the basis of its promise of "change." As a centerpiece of its platform of change, the new administration promised a "new economic paradigm," a major tenet of which was to create a liberal trading environment through strategic intervention in the process of international trade. Such strategic trade policy involved government intervention to open "closed" foreign markets (the example that was offered was Japan), government activism to serve the national interest in supporting "strategic" industries (e.g., commercial aircraft and semiconductors) and selective targeting of trading partners who were trading "unfairly" by subsidizing their exports or dumping them in the U.S. market.

In spite of the victories in Congress on the North American Free Trade Agreement (NAFTA) and the Uruguay Round of Negotiations of the General Agreement on Trade and Tariffs (GATT), neither of which was initiated by them, the Clinton administration remains wedded to a philosophy of managed and strategic "fair" trade as witnessed by recent confrontations with Japan, China, India, and a host of other nations on issues ranging from the opening of "closed" markets to human rights.

The slogan of "fair" trade has regularly inflamed the passions of the American people since the founding of the republic. Yet successive presidential administrations and the majority of the American people have on balance been champions of free trade and have thereby made the U.S. the richest country in the world. As the champion of multilateral free trade through the active encouragement and sustained support of the GATT, the U.S. has also been instrumental in supporting world development and making people in other free-trading nations prosperous.

Yet, America in the eighties and early nineties has witnessed the rise of protectionism in the form of retaliatory tariffs and other forms of administered non-tariff barriers. Its "Japan problem" has given rise to a groundswell of popular support for "managed" trade and for punishing its partners for alleged "unfairness," even under the ostensibly free-trade administrations of Ronald Reagan and George Bush. The Clinton administration evidences an activist strain of the protectionist virus that has plagued the nation's movement toward freer trade, in spite of appearances to the contrary.

## Free Trade vs. "Fair" Trade

It is a commonplace of elementary economics that voluntary exchange creates benefits/wealth for all parties to the exchange. When it comes to trade between nations, the same principle applies since it is once again individuals who are involved in these exchanges. In fact, the classical theory of comparative advantage underlying the case for free trade argues that such trade is good for a country even if other countries do not return the favor.

Yet, the case for managed "fair" trade continues to be made on the grounds that free trade results in the loss of jobs, the deindustrialization of America, the loss of " strategic" industries to "unfair" foreign competitors, the loss of American economic leadership and, most recently, is alleged to be the cause of global environmental pollution and needs to be made contingent on the achievement of a common standard of human rights. Both the logic and experience of free trade convincingly refute each one of these claims.

## The "They Took Our Jobs" Myth

Trade creates jobs as economic activity expands. The experience of the most free-trading nation on earth, Hong Kong, clearly illustrates this point. With no natural resources, except its people and one of the world's finest natural harbors, but with complete free trade, Hong Kong has witnessed an increase in its per capita income over twenty-five fold and an increase in employment of over twenty times within a short span of forty years. Today, its per capita income is greater than that of the United Kingdom, of which it is still a colony. This stellar economic performance has been achieved while the population of this largely barren island-peninsula colony increased from around 300,000 to six million over this period. The experience of the other "tigers," Singapore, Taiwan, and South Korea, is similar. Lest these examples be considered atypical, the cases of western Europe, North America, and Japan have been similar both before and especially after the two World Wars.

The common argument that is advanced in favor of "fair" trade is that trade deficits (i.e., excesses of imports over exports) cause job losses. While this argument reveals a lack of understanding of what trade deficits imply in the standard system of balance of payments accounting, it is pertinent to note that over 21 million new jobs were added between 1980 and 1990 even as the U.S. ran up huge trade deficits with the rest of the world. And the majority of these jobs paid rather well, contrary to the "McJobs" myth. Job growth was mainly in those sectors that were largely unprotected against foreign competition such as computers and data processing, telecommunications, petroleum and chemicals, pharmaceuticals and health-related products, scientific and photographic equipment, banking and finance, entertainment, leisure and recreation, hospitality and tourism, and the service professions.

Meanwhile, protectionist measures designed to "save" jobs in such industries as automobiles have not kept employment in them from shrinking drastically and, in fact, may have added to their troubles. The quotas (euphemistically called "voluntary" export restraints—VERs) against Japanese autos imposed by the Reagan administration in the early eighties did not prevent the net loss of over 200,000 jobs in the U.S. auto industry.

Robert Crandall of the Brookings Institution has estimated that the 27,000 direct jobs that were saved in the U.S. auto-manufacturing sector cost around $160,000 per job saved (in 1984 dollars) in terms of economic welfare losses in production and consumption. The VERs added about $2,000 to the price paid by consumers, reduced consumer choice, reduced the competitiveness and efficiency of American producers, and resulted in windfall profits for American and Japanese (and other foreign) automobile manufacturers, leading to the shift of Japanese auto production to luxury cars and further exacerbating Detroit's woes in this high-margin segment of the industry. Japanese transplant factories that were set up in the U.S. in order to avoid protectionist sentiment and restraints reduced the magnitude of the job losses in the auto industry and the other pernicious effects of VERs.

The experience in steel, textiles, and a host of other industries such as dairy products, shipping, and meat-packing was similar. These industries continued to shrink while protective tariffs and subsidies were lavished on them to “save” jobs. For example, in the late eighties, consumers spent $27 billion on textile and apparel subsidies alone, and the cost per direct job saved was $42,000 in an industry with an average wage of $12,000. In the protected dairy products and shipping industries the cost per job saved was estimated at $220,000 and $270,000 respectively in 1987. In the carbon-steel industry for the 9,000 direct jobs saved, the cost was a phenomenal $750,000 per job. The impact of these high-cost “saved” jobs is the diversion of scarce resources from other, more market-oriented industries with perhaps a much larger number of jobs that never came into existence.

Restricting steel imports destroyed jobs. It is estimated that in the 1980s, steel restraints protected 17,000 jobs in the whole industry, while they cost 54,400 jobs in steel-related industries, for a net loss of over 35,000 jobs. Higher steel costs added to the burden of steel-using industries that were trying to compete against foreign manufacturers. Thus, for example, expensive steel raised the cost of building cars in Detroit and promoted Japanese auto imports.

## The Deindustrialization Myth

The widespread belief that the U.S. has lost its manufacturing base in the face of foreign competition is simply wrong. Deindustrialization never happened. In terms of absolute output, America’s manufacturing lead continues to increase, not fall. The U.S. share of total output of OECD countries (the 24-nation Organization for Economic Cooperation and Development, comprising the bulk of the market-oriented industrial economies of the world) increased from 36 percent in 1973 to 39 percent in 1986, and its share of the industrialized world’s manufactured exports was estimated to be 18 percent, the same as in 1980, and ahead of Japan’s current 17 percent share. Moreover, the absolute productivity level of U.S. labor in general, and manufacturing labor in particular, continues to be the highest in the world. American manufacturing productivity increased at the fastest pace among the OECD nations in the eighties. The U.S. share of OECD manufacturing employment also increased from 24 percent in 1962 to 28 percent in 1985, while the share of countries like France, Germany, and the United Kingdom fell.

If rising incomes and technological innovation raise the demand for services instead of manufactured goods, economic and social survival require that such services be supplied. The decline in the U.S. of the share of manufacturing in total output and employment has been the result of relatively fast productivity growth in manufacturing and an increase in the demand for services as compared to manufactured goods. The result has been very similar to what happened to the American agricultural sector in the early part of the century—unprecedented gains in agricultural productivity and a rising demand for manufactured goods led to a decline in the share of output and employment in agriculture. This “de-agriculturalization” was not only desirable, given the shifts in demand and productivity, it also occurred amidst a period of rising trade surpluses in agricultural products. In any case, many of the countries with some of the highest standards of living in the world today specialize in the provision of services.

## The Industrial Policy Myth

Another common complaint against free trade and argument for “fair” trade is that other countries, most especially Japan, are targeting and subsidizing “strategic” industries for takeover and ultimate market domination. The argument is that the U.S. government should create a “level playing field” with countervailing tariffs, or subsidies and industrial policy. Once again, the logic and evidence of actual trade belies this view.

The logic of “strategic” targeting and industrial policy requires that government officials possess vast amounts of information about the future and be able to outguess private entrepreneurs with money at stake. This is, as F. A. Hayek taught us, impossible because of the knowledge problem involved in collecting vast amounts of dispersed knowledge in order to predict successfully an unknowable future. Communist nations suffered from the fatal conceit that government planners could perform such impossible feats before their ill-constructed policies eventually collapsed.

Secondly, strategic targeting, even if possible, would lead to a cycle of retaliation and counter-retaliation which would ultimately make everyone worse off. The results of the infamous Smoot-Hawley tariff in the early thirties illustrate the point. Escalating subsidies and industrial policies will distort the price signals essential for the functioning of a dynamic economy, leading to unintended consequences that are worse than the original alleged disease.

The United Kingdom suffered from the disastrous consequences of its post-war protectionist and interventionist industrial and labor policies. It was the "sick man" of Europe until free-market policies in the eighties restored some of its economic dynamism.

Japan is presented as an example of successful strategic targeting and industrial policy. Yet the actual evidence seriously questions this alleged success. If Japanese strategic targeting had been successful, the original company that later became Sony would have never mass-produced the transistor radio and, in fact, the present-day Sony Corporation may have never come into existence. Similarly, Mr. Shoichiro Honda would have never manufactured Hondas if he had taken the Japanese government's advice.

While some Japanese industries clearly capitalized on the opportunities provided by government subsidies, low-interest loans, and import protection, a large number of targeted industries simply did not do well, or actually became inefficient and/or failed. These include the highly protected and inefficient agricultural industry; the heavily subsidized and low-interest loan-financed coal mining, petroleum refining, and petrochemical industries; the protected and politically mollycoddled wholesale and retail distribution industries; the largely unsuccessful and government-assisted aerospace and large commercial aircraft companies; and the government-supported shipbuilding industry which, after an initially successful period in the late sixties and early seventies, ran into heavy weather and had to downsize massively in the late seventies and early eighties. Japan's most successful and internationally competitive industries such as the automobile and consumer electronics industries have enjoyed practically no special government favors. The industrially targeted steel industry actually yielded below-market returns and has been judged by sophisticated analysts as an example of unsuccessful targeting.

What industrial policies and protection did do was to keep the Japanese standard of living lower than what it otherwise would have been. In 1988, the Japanese standard of living, adjusted by purchasing power exchange rates, was estimated to be around 72 percent of the American standard of living. Most of the improvement of its standard of living has occurred in the last fifteen years as it has dropped its tariff and non-tariff barriers.

## The Japanese "Unfair" Trade Myth

Another common myth about "fair" trade is that Japan severely restricts imports. In fact, Japan's formal and informal trade barriers are lower than those in the U.S. and other industrial countries. For example, Japan's average tariff on industrial products was 2.9 percent in 1981 as compared to 4.3 percent in the U.S. and 5.8 percent in the EC. Non-tariff barriers such as quotas, licenses, and VERs in Japan were found by a World Bank study to be no different than those in the United States, with the Japanese using more non-tariff barriers to protect agriculture, while the U.S. protects more of its manufacturers in this fashion.

Japan was the world's third largest importer in 1990, taking in $235 billion worth of goods and services, imports that were almost as large as the GNP of India and larger than the GNP of Sweden. Japanese imports grew by almost 85 percent since 1985. In terms of imports per person, Japan imported $1,900 compared with $2,050 for the U.S. Yet, the typical Japanese person spent more on American products than vice versa—$372 in 1990 as against $357 for the United States. Over the 1986-91 period U.S. exports increased by 91 percent, while Japan's exports grew by around 17 percent and the average OECD growth was around 25 percent. U.S. exports to Japan during this period were especially strong, doubling to $46.1 billion by the end of 1990. The growth of U.S. exports was strongest in the manufacturing sector.

Sophisticated econometric analyses by a number of serious and scholarly analysts such as Gary Saxonhouse of the University of Michigan, Ed Leamer of UCLA, and T.N. Srinivasan of Yale and Koichi Hamada have shown that Japan does not "under-import" (as unmeasurable and illogical as that concept may seem) as a number of trade "revisionists" such as Clyde Prestowitz and James Fallows have contended. In fact, they have shown that Japan's total imports and imports of manufactures are well within the margins of what would be expected for a country with its natural resource endowments and demographic characteristics.

In fact, it can equally well be argued that it is the U.S. which is the unfair trader. In his book, *The Fair Trade Fraud*, James Bovard has documented that the U.S. has over 8,000 tariffs, 3,000 clothing and textile import quotas, and a variety of quotas and other non-tariff barriers for steel, autos, sugar, dairy, peanut, cotton, beef, machine tools, and other industrial products. Bovard estimates that these trade barriers cost U.S. consumers $80 billion on an annual basis, or more than $1,200 per family per year.

## The Cleaner Environment Myth

A more recent argument for managing trade has been raised by environmentalists. According to them, free trade will lead to greater pollution as production expands in the trading countries. Therefore, only environmentally "safe" industries should be allowed in the newly industrializing countries, or trade policy should be linked to tough environmental pollution control laws in the developing countries.

The greatest cause of human misery in the underdeveloped nations is poverty. Free trade and free markets are the only viable way to achieve sustained growth and alleviation of this poverty. Restricting trade or slowing growth for environmental reasons will continue and perpetuate human misery in these nations. The existence of the knowledge problem implies planners cannot know enough to achieve "environmentally responsible" managed trade and economic growth.

In fact, if the economic development of the industrialized countries is any guide, free trade and free market policies will most likely lead to a cleaner environment. Julian Simon and others have shown how economic development in the context of a free market, private property rights economy has inevitably led to a cleaner environment while simultaneously alleviating poverty.

A recent report published by GATT shows that since the richer countries pollute less, and trade makes countries richer, protection or managed trade is likely to cause more, not less, pollution. For example, Princeton economists Gene Grossman and Alan Krueger have shown that air pollution in cities rises with national per capita income to around $5,000, but then falls as income increases further. Trade also helps cleaner technologies to spread.

## The Strategic Trade Policy Myth

A major influence on the thrust toward managed trade is the presence of "strategic traders" in its ranks. Recent research in the field of international economics has given rise to what is called strategic trade theory where some of the world's leading trade theorists have shown that under certain stylized circumstances (for example, where a single national firm is in combat with a single other-country rival, like Boeing and Airbus in the commercial aircraft industry), strategic support (for example, with a subsidy) of a domestic industry against its foreign competitor can be in the national interest and provide it with a "strategic advantage." Such arguments have been seized upon by the strategic traders, a group of public policy entrepreneurs and journalists, as evidence of a fatal weakness in the theory of comparative advantage and the case for free trade. Nothing could be further from the truth.

There are many good reasons for rejecting the temptation to implement strategic trade theory. The most important reason is that the knowledge problem makes it impossible to identify which industries to encourage. In any case, targeting one industry with a subsidy will draw away scarce resources from others so that strategic trade policy on behalf of one industry is simultaneously strategic trade policy against other industries. With the likelihood of government policy failure being very high due to the knowledge problem and a host of other problems (called problems of "public choice" by economists), strategic trade intervention is likely to prove most detrimental to the economy.

Secondly, real-life competition in most industries is unlike that depicted in stylized strategic trade models. Seldom is one national industry "champion" pitted against another solitary rival (even in the Boeing-Airbus case the analogy is seriously flawed), and when there are more than two rivals the outcomes are likely to be more varied and run counter to the desires of the strategic policy maker.

Thirdly, the basic premise of the strategic traders and the competitiveness advocates is patently false. Strategic traders portray nations as being like giant corporations with monopoly power pitted in mortal combat with each other. President Clinton himself has characterized nations as "big corporations competing in the global marketplace." This leads to ill-founded fretting about the "competitiveness" of a nation.

Not only is the concept of the competitiveness of a nation difficult to define, there is no equivalent counterpart to the one indicator of the competitiveness of a corporation—its bottom line in terms of profit or loss. When we say that a corporation is uncompetitive, we mean that it is making a loss and that, if it does not improve its market position in terms of profit (or cash flow), it will cease to exist. No such statement can be made about a nation's competitiveness since it does not have a definable bottom line and does not go out of business (the trade balance is clearly inadequate and inappropriate since countries running trade deficits often are attracting huge sums of foreign investment as did the U.S. in the last decades of the nineteenth and early decades of the twentieth century and as Mexico has done in recent years).

Countries also do not compete with each other like corporations since international trade is not a zero-sum game. While IBM and Hitachi tend to be successful at each other's expense in the same market as they wrestle for market share, countries normally comprise each others' export and import markets. This means that if China is successful in exporting a large amount of goods to the U.S., it simultaneously becomes a large market for U.S. goods. The gains from international trade and specialization accrue to both nations unlike the case of IBM and Hitachi competing for market share.

## Human Rights

The most recent argument for managed "fair" trade has focused on the issue of human rights and workers' rights in developing countries. The Clinton Administration has threatened countries like China with the loss of most favored nation (MFN) status for its human rights record, and a host of other countries such as India, Indonesia, Brazil, and Thailand have been placed under "super 301" (named for Section 301 of the U.S. Trade Act of 1974) sanctions for these and other reasons.

Free trade has been a powerful force for the establishment of human rights and workers' rights the world over. It is no accident that human rights and workers' rights have been and continue to be violated routinely in countries which do not participate in a major way in international trade. Even if international trade has not always resulted in the quick establishment of human rights, it is nevertheless a bad idea to use international trade as a political lever.

The argument for using trade as a weapon to enforce a uniform human rights standard can very quickly become the thin edge of a wedge to demand "fairness" in trade for favored domestic industries and pressure groups by the imposition of sanctions, embargoes and protectionist measures. This could very well degenerate into a name-calling "beggar-thy-partner" trade dispute. Looking for policy, institutional, and moral differences as sources of unfair trade is contrary to rule-based trade regimes such as GATT. It results in challenging every policy in the name of "fair" trade, making managed trade inevitable and putting bureaucrats and politicians in charge of a highly politicized trade regime.

It is very easy to see disputes about workers' rights degenerating into the prevention of trade on the basis of genuine comparative advantage such as lower wage labor. There are many who regard it as "unfair" for Mexican or Chinese workers to be paid a fraction of the wages of American workers and call for tariffs or trade barbers to redress the balance. Such arguments are very easily extended to "working conditions" and other labor costs. They are destructive to the aspirations of developing nations since they deny the basis for comparative advantage for these nations. Moreover, the call for workers' rights is often only a thinly disguised call for universal unionization of labor.

## Globalization

The strongest argument against managed "fair" trade is the reality of the existence of globally integrated multinational corporations like IBM, AT&T, and Procter & Gamble, and the interdependence of the inhabitants of our "global village." It is estimated that over forty percent of world trade is carried out by over 2,000 multinational corporations that do not have a national identity and that produce and distribute through a globally integrated operational network. Any attempt to impose "fair" trade on ostensibly "foreign" competitors through countervailing measures such as anti-dumping duties is more than likely to end up hurting ostensibly "domestic" corporations. This has been the experience with U.S. Section 301 sanctions against foreign countries and trade agreements such as the semiconductor agreement, which resulted in injury to "domestic" corporations like IBM, DEC, Apple, and so on.

The comedy of the recent "buy American" campaigns that preceded and followed the 1992 presidential election illustrates the futility of national policies and efforts to protect "us" from "them" in the face of this globally interlinked trade. Today, anyone wishing to "buy American" may have to purchase a car with a nameplate like Honda or Mazda rather than Chevrolet, Dodge, Ford, or Pontiac. Some of Lee Iacocca's much touted new line of American-built cars such as the Intrepid are not even built in the U.S.—they are built in Canada.

## In Conclusion

Logic and hard evidence dictate that we resist the siren song of "fair" trade if we wish to maintain and enhance our standard of living in an interdependent world. Free trade is still the best option for promoting American prosperity in spite of our current problems and the exhortations of our politicians. Managed "fair" trade can only lead to costly mistakes and policy errors and an ever-escalating cycle of retaliation and counter-retaliation putting our world trading system and our futures at risk. Our economic and social future depends on keeping our borders open and the goods and services flowing!

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He has served as a consultant to more than 100 firms, non-governmental organizations and nonprofits in 15 countries on four continents, and has been an economic consultant to the governments of Austria, Brazil, China, India and Thailand, to the United Nations Development Program, and numerous private foundations.

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# Free Trade Doesn't Depend On Multilateralism

Ferghane Azihari

For the first time since the end of the Second World War, multilateral institutions are losing their influence regarding open trade.

The World Trade Organization (WTO) has gone into hibernation after the failure of the Doha Round, and the European Union (EU)—long regarded as a pro-trade force—is facing its own local protectionist pressures. The EU's difficulties in ratifying the Comprehensive Economic and Trade Agreement (CETA) with Canada, and even Brussels' recent attempt to restrict the free movement of labor to satisfy Western Europe's protectionist claims against Eastern Europe, show how the EU trade agenda is challenged.

Moreover, in the United-States, the election of Donald Trump marks the beginning of a new protectionist era. Trump considers both the Trans-Pacific Partnership (TPP) and The Transatlantic Trade and Investment Partnership (TTIP) as contrary to America's interests. He asked for a renegotiation of NAFTA and even mentioned the possibility of withdrawing from the WTO.

The recent nomination of Peter Navarro, an economist well-known for his hostility against China's growing commercial influence, as head of the newly created National Trade Council confirms the will of the new administration to engage in a new "trade war"—reflecting the old mercantilist bias that views international trade as a zero-sum game.

## Good News

Fortunately, there is still a way to promote free trade despite the fact that Europe and America are likely to retreat from the global trade liberalization agenda. Multilateralism is indeed not the only method to open markets. Actually, one can say multilateral approaches have long been motivated by mercantilist instincts: trade agreements are based on the belief that opening markets is only viable on a strictly reciprocal basis. Imports are seen as a trade-off and exports are considered to be the only key to prosperity. This is simply wrong.

The benefits of international trade can be precisely evaluated by the value of imports that can be bought with a unit of exports. In other words,international trade is always a positive-sum game. That is why free trade can be promoted without any treaty.

A country that unilaterally opens its markets benefits from its comparative advantage independent from other governments' remaining trade restrictions. An open economy allows its citizens to purchase cheaper quality products and favors a better division of labor and specialization. Everyone becomes more productive, and wealth production increases while poverty declines.

## Would It Work?

Unilateral free trade is not just a theory. The repeal of the British Corn Laws in 1846 is a leading example of the success of a major initiative towards autonomous liberalization. To take more contemporary cases, Hong Kong and Singapore are also known to have unilaterally settled two of the most liberal trade regimes in the world. New Zealand adopted similar agricultural policies in the late 80s, well before the agreement on agriculture concluded under the WTO in 1994, which still has not ended European and American agricultural protectionist policies.

If these countries had waited for a global consensus before opening their markets, they would have lost several years or decades of economic development.

It would be obviously naïve to think these initiatives could be taken by Europe or America in the short term given their respective political situations. But the world's march towards open trade does not have to be slowed down by these countries. This is true for other OECD countries, emerging countries and even developing countries.

**A 2005 World Bank report** reminds us "of the 21 percentage point cuts in average weighted tariffs of all developing countries between 1983 and 2003, unilateral reforms account for roughly two-thirds of the reduction." This reduction shows that the importance of multilateralism has been overrated.

Nowadays, tariffs are not the main issue, though. World trade now has to face the increasing proliferation of non-tariff barriers. Rather than waiting for the unanimity of world leaders, governments wishing to save precious time and work on the economic development of their countries should set an example by recognizing foreign regulatory regimes and unleash the benefits of international competition.

The decline of multilateralism in favor of local liberalizations does not necessarily jeopardize the hope of setting a global, trade-friendly order. It would be easier to spread a pro-trade culture by iteration and emulation rather than relying on multilateral institutions. After all, given the political context and the impossibility to get a world consensus, these institutions would do nothing more than leave remaining global trade in deadlock.

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# The Fair Trade Myth

Shyam J. Kamath

The siren song of managed "fair" trade is once again in the air as the 1992 election nears. Cries of "buy American" fill the newspapers and TV news programs. Japan-bashing is in; free trade is out.

The common argument advanced in favor of "fair" trade is that trade deficits (excesses of imports over exports) cost American jobs. But this is a myth. Over 15 million new jobs were added between 1982 and 1989 as the U.S. ran up huge trade deficits. And the majority of these jobs paid rather well, contrary to the "McJobs" myth. Job growth was mainly in those sectors that were largely unprotected against foreign competition: computers and data processing, telecommunications, petroleum and chemicals, pharmaceuticals and health-related areas, scientific and photographic equipment, entertainment, leisure and recreation, hospitality and tourism, and the service industries.

Meanwhile, protectionist measures were failing to save American jobs. Quotas against Japanese autos (euphemistically called "voluntary" export restraints) imposed in the early 1980s didn't prevent the loss of over 200,000 jobs in the U.S. auto industry, and General Motors recently announced massive new layoffs. The record in steel, textiles, dairy products, shipping, and meat packing is much the same. These industries shrank while protective tariffs and subsidies were lavished on them to save jobs.

Another common myth about "fair" trade is that Japan severely restricts imports. In fact, Japan's formal and informal trade barriers are lower than those in America and other industrialized nations. For example, Japan's average tariff on industrial products was 2.9 percent in 1987, compared with 4.3 percent in the U.S. and 5.8 percent in the European Community. Nontariff barriers in Japan such as quotas and licenses were found by a World Bank study to be no more significant than those in the United States.

Japan was the world's third largest importer in 1990, taking in $235 billion worth of goods and services. Imports have grown 85 percent since 1985. In terms of imports per person, the average Japanese spent $372 on American products in 1990 while the average American spent $357 on Japanese products. During 1986-91, U.S. exports rose by 91 percent, while Japan's exports grew by only 17 percent. American exports to Japan were especially strong during this period, doubling to $46.1 billion by the end of 1990.

In fact, it can be argued that the United States is the unfair trader. James Bovard points out in *The Fair Trade Fraud* (reviewed on page 282 of this issue) that America has over 8,000 tariffs, 3,000 clothing and textile import quotas, and a variety of quotas and other nontariff barriers for steel, autos, sugar, dairy products, peanuts, cotton, beef, machine tools and other industrial products. For example, America limits imports of ice cream to the equivalent of one teaspoon per person each year, and foreign peanuts to two per person. Such restrictions reduce competition, raise prices, decrease variety, and cost American consumers $80 billion per year, or $1,200 per family.

The strongest argument against "fair" trade is the existence of globally integrated multinational corporations such as IBM, AT&T, and Procter & Gamble, and the interdependence of the inhabitants of our "global village." It is estimated that over 40 percent of world trade is carried out by more than 2,000 multinational corporations that have no national identity and that produce and distribute through a globally integrated network. Today, anyone wishing to "buy American" may have to buy a car with a nameplate like Honda or Mazda rather than Chevrolet, Dodge, or Ford.

Logic and hard evidence dictate that we resist the calls for "fair" trade if we wish to maintain and enhance our standard of living in an interdependent world. Free trade is still the best option for promoting American prosperity. "Fair" trade can only lead to an ever-escalating cycle of retaliation and counter-retaliation, putting the world trading system at risk. Our future depends on keeping our borders open and the goods and services flowing.

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# Africa Will Not Rise Until It Trades With Itself

Daniel Knowles

For an idea of how wealthy Africans want to think of their countries, flick through the adverts in one of the glossy pan-African magazines given away in the continent's airport lounges. Banks are promoted with pictures of young glamorous Africans in smart suits strolling through glossy malls. New apartment blocks and golf courses grace the other pages. Africa, in these magazines, is rising.

If, however, you want to get a real idea of how Africa's economies are faring, you should go where few of the wealthy people in the lounges do: the land borders. Earlier this year, I spent a day at the border of Burkina Faso and Ivory Coast. Whereas Ivory Coast's commercial capital, Abidjan, buzzes with new investment, at the country's border, it is hardly noticeable. The start of no-man's land is marked by a piece of string stretched across the road, and a small office manned by a pair of sleepy soldiers. It is not a busy place; when I was there, a few dozen lorries at most were waiting to cross.

When African countries feature in Western politics, it's invariably a debate over aid versus trade. In September, Barack Obama hosted a forum in New York designed to promote trade between America and Africa. "From Senegal to South Africa, Africans insist they do not just want aid, they want trade," declared the outgoing President. In October, Britain's new DFID secretary, Priti Patel, hinted at using Britain's hefty aid budget to promote post-Brexit trade deals. The idea is that aid creates dependency, whereas trade creates lasting gains. And it is correct.

But what should matter almost as much is what sort of trade. Africa's problem isn't just that it trades too little with the world. It is that it trades too little with itself. Africa's economic geography is still much as it was in the colonial era: wealth is concentrated in port cities such as Lagos or Dar es Salaam. The raw materials gathered inland cluster in these places, before being sent outwards, towards Europe, or, increasingly, Asia. The rural hinterland – and landlocked countries – remains desperately poor.

According to UN figures, only a tenth of African countries' exports go to the rest of the continent. The equivalent figure for the European Union is 60 per cent. In 2014, Nigeria, the continent's second-largest economy, imported more from the Netherlands than it did from the rest of Africa. It exported more to Sweden than it did to its neighbour, Cameroon.

The European Single Market provides unified rules which means that firms need only adhere to one set of rules to sell to 500 million wealthy customers. In North America, Nafta creates a similar market for American, Mexican and Canadian firms. Africa however is not one big market. It is 54 tiny ones, divided by border controls, poor infrastructure and worse, different systems of corruption and patronage. For many African countries, selling to Europe or America is easier than selling to their neighbours.

Unfortunately, this sort of trade tends to be in natural resources. Nigeria, for example, mostly exports one thing, and one thing only: oil. The jobs that are created mostly go to expats, while the foreign exchange earned flows heavily to the super-rich, who use it to import luxuries. In the 1970s, before the oil flowed, Nigeria had a growing textiles industry and was a notable agricultural exporter. Now it imports both clothes and food. And bubbles are followed by bust. With the oil price currently at half of what it was in 2014, in Nigeria, dollars cannot be had for all the ready Naira in the world.

And Nigeria is hardly alone. A whole swathe of oil and metal producers in West and central Africa–from huge Angola to tiny Gabon–are in decline. This year, according to the World Bank, thanks to the commodity bust, GDP growth in sub-Saharan Africa has fallen to just 1.6 per cent. That is the lowest rate since the mid-1990s, when much of Africa was mired in war. It is also lower than population growth, which means Africans are now on average getting poorer again.

The parts of the continent that are doing better are those that don't sell commodities. Kenya, despite rampant corruption, is still growing quickly, thanks in part to the boost from lower oil import costs. So are Tanzania and Rwanda (although both depend heavily on aid). In those countries, on paper much poorer than their oil-cursed counterparts, people are visibly getting richer: buying solar panels, motorbikes and smartphones. According to the CIA World Factbook, though Kenya's

GDP per capita is half of Nigeria's, its poverty rate is 25 percentage points lower.

It is surely no coincidence that these are also the most integrated economies. Kenya's biggest exports are cut flowers, coffee and tea, which still go mostly to Europe. But the fastest growth has been in in exports to the rest of Africa, which now make up 45 per cent of the total. This is partly thanks to the work of the East African Community, which since 2010 has moved towards a genuine single market within the borders of its members But Western aid agencies too have helped, by funding groups such as Trademark East Africa, which identifies trade bottlenecks and pushes to end them.

The trouble is that outside of east Africa, a lot of African finance ministers are just hoping for commodity prices to rise again. Nigeria's government has tried everything over the past year to avoid admitting that oil isn't worth what it was: import bans; currency controls; bizarre banking rules. What it hasn't done is anything that would boost its long-term prospects of trading. If the oil prices goes up again, its economy will puff up again, just like a souffle, and the imports will begin flowing in again, as it will in a dozen other countries. But if Africa wants real growth, its economies need to start working together more.

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# The EU Is Keeping Poor Countries Poor

Joseph Hackett

The EU likes to present itself as a global force for good, fostering aid and development in the world's poorest societies. It boasts of its £12 billion aid program and calls itself "the most generous donor in the world." It truly believes itself to be a kindlier world power than the United States, Russia, or China.

As ever with the EU, the truth is much uglier. Eurosceptics have long known of the EU's practice of dumping subsidized agricultural products on developing countries, especially Africa. In a rare case of progress, the EU now spends considerably less on these, and WTO members – including the EU – finally agreed to end export subsidies in 2015.

There are, however, many other ways in which the EU stunts the development of poorer countries. Take its tariff regime, which sets higher tariffs for more processed products. Raw coffee beans, for instance, can be exported to the EU tariff-free, while roasted coffee is subject to a 7.5 percent tariff. If the coffee is decaffeinated, the tariff rises to 9 percent. The same goes for chocolate – cacao beans have no tariff, but chocolate bars are subject to a 30 percent tariff.

This is no accident. It is designed to stop countries such as Ethiopia and Ghana processing their own produce and then exporting it, which EU leaders fear would threaten the lucrative food industry in Europe. Producers are instead encouraged to export the raw produce while the "generous" EU ensures that developing countries take only a fraction of their potential profit, preserving the spoils for itself. In fact, in 2014, Germany earned more from coffee exports than all of Africa combined.

Across various different types of agricultural produce, this stifles the industrialization of developing countries. The tariff regimes encourage them to remain agrarian economies rather than to fully exploit their considerable natural resources. Dropping these tariffs would be a simple way to boost developing economies, but the EU refuses to do it, instead using aid payments as a fig leaf to hide behind.

The EU also harms local fishing industries. Having instituted rigorous fishing quotas in Europe, the EU makes deals with various West African countries to allow its large trawlers to fish on a massive scale in those countries' waters. Mauritania, for instance, has allowed the EU to fish in its waters for over 25 years, in return for around £1 billion. Senegalese fishermen, however, objected to a deal their country struck with the EU in 2014, which allowed EU trawlers extensive access to their waters.

The EU does now include "support" for local fisheries in these deals, and loudly trumpets its efforts to stop illegal fishing by European trawlers in waters reserved for locals. West African countries protect their waters from illegal foreign fishing less effectively than wealthy countries such as Norway, which is fining EU vessels.

These efforts do not, however, change the fundamental problem. Local fishermen are crowded out, struggle to industrialize their operations, and find stocks dwindling in the long-term if – as groups such as Greenpeace allege – the EU's quotas in West African waters are too high to be sustainable.

Small wonder hundreds of thousands of Africans are embarking on long and often dangerous journeys every year in an attempt to make it to Europe. All the while, the EU salves its conscience with foreign aid spending, attempting to fool the world into thinking it genuinely cares about the growth of poorer countries.

When we get Britain out of the EU, we won't have to have anything to do with these practices. Outside the Customs Union, we will no longer have to set tariffs according to the special interests of 27 other EU Member States. We will be free to drop tariffs on processed food imports from the developing world, encouraging countries such as Ethiopia to process their own products and sell them to Britain – where they will then be cheaper than those currently on our shelves. In addition, we can either conclude our own, fair fisheries agreements with West African countries, or we can refrain from such deals altogether.

Abandoning the EU's unscrupulous approach to trade with the developing world could go a long way towards helping those countries. It would also entrench our reputation as one of the most committed nations in the world for international development. Liberal Remainers should take note – the EU is no friend to poorer countries, and Brexit will allow us to take a much fairer approach.

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Joseph Hackett is a Research Executive at Get Britain Out.

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