Fairness in Trade

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May 2006

Why Trade?

Focusing on comparative advantage creates gains from specialization; larger markets create gains from economies of scale; more competition makes production more efficient

Three questions about Fairness in Trade

Assume legitimacy of states of different size and power. To what obligations does trade give rise?

General difficulty about thinking about fairness in trade: involves weighing of claims that individuals make on very different bases

Concern here is with trade policies of countries, not individual conduct

1. Suppose country A trades with country B while parts of A's population are oppressed in a manner that facilitates trade between A and B. Do the oppressed in A have a complaint in fairness against B in virtue of B's involvement in the trade? If so, should B stop trading with A?

2. Suppose as a result of oppression or of social standards lower than B's, A can sell its products for less than B. Can affected industries in B legitimately insist that their government take protective measures?

3. Suppose A subsidizes its industries to facilitate exports. If this leads to lower world market prices or otherwise harms industries in B, does B have a complaint in fairness against A? Put differently, in determining trade policies, ought countries to take into account how measures such as subsidies affect other countries?

Exploitation?

Fairness

Satisfaction of stringent claims in proportion; stringent claims are claims whose satisfaction is owed to people

A full theory of fairness involves two accounts of pondering claims: first, an account of how to compare different bases on which stringent claims can be made (e.g., needs, desert, entitlement); second, an account of how to satisfy claims within each category proportionately.

Fairness and "Leveling-the-playing-field:" the leveling metaphor is tied to equality of opportunity, not to fairness at this general level. Sometimes fairness requires equality of opportunity, but not always.

Ad (1): Trading with Stolen Goods

Under the following conditions being involved in trade with an oppressive country is like being involved in trade with stolen goods and thus makes for a complaint in fairness that the formulation of trade policy must acknowledge (Conditions are jointly sufficient.)

First, trade is an activity jointly practiced by the trading partners, an activity that amounts to a highly structured exchange involving markets and bodies of law, domestic and international, that regulate them.

Second, this activity is mutually beneficial, at least for the countries as a whole. For both sides, trade involving oppression leads to ill-gotten gains.

Third, the parties to the trade can reasonably be expected to know about the business practices of their partners.

And fourth, trade occurs at the expense of the oppressed, in the sense that either (a) their contributions do not make them better off to an extent warranted by their value, or (b) their involvement in the trade has emerged in an oppressive way (e.g., they are coerced into working in the relevant industries), or both. The "to-the-extent" addition in (a) ensures that the oppressed may still have complaints even if they gain from trade. Condition (b) ensures that they may still have a complaint even if their contributions are adequately valued.

[What if the trading partner does not actually benefit from the oppression? What if one trading partner's discontinuing the trade would merely mean that there would be other buyers? What if oppression is not motivated by gains from trade (Apartheid)?]

Is this conclusive? Should this end trade? Possibly not if both (a) suspending trade will not bring about any change, and (b) continued trade increases likelihood of an improvement

Ad (2): The Pauper Labor Argument

Assume legislation for social standards is adopted for moral reasons, because we have a certain view of how people ought to be treated. To avoid setting incentives to treat people badly and out of respect for those who have been so treated, nobody should benefit from so treating people. This moral view of the person applies across countries, although our legislation is limited to our country. So we have reasons to avoid setting incentives to treat people badly and to keep others (e.g., foreign competitors) from benefiting from such situations. On this basis domestic industries have a claim to compensation from their government: they are disadvantaged because competitors violate moral commitments that motivate our standards, and the harm arising from there should be born by all.

Consider 1930 US Tariff Act

All goods, wares, articles, and merchandise mined, produced, or manufactured wholly or in part in any foreign country by convict labor or/and forced labor or/and indentured labor under penal sanctions shall not be entitled to entry at any of the ports of the United States, and the importation thereof is hereby prohibited. (…) [B]ut in no case shall such provisions be applicable to goods, wares, articles, or merchandise so mined, produced, or manufactured which are not mined,

produced, or manufactured in such quantities in the United States as to meet the consumptive demands of the United States.

Legislative intent/public commitment are crucial according to this argument.

Do workers in Sweden have such a claim against their government if trade with the US harms them? Urgency of the claim depends on the level of well-being of those who make it.

Ad (3) Subsidies

"[T]otal assistance to rich country farmers was $311 billion in 2001, six times as much as all development assistance, indeed more than the GDP of Sub-Saharan Africa. In 2000, the EU provided $913 for each cow and $8 to each Sub-Saharan African. The Japanese, more generous still, though only to cows, provided $2,700 for each one and just $1.47 to each African. Not to be outdone, the US spent $10.7 million a day on cotton and $3.1 million a day on all aid to Sub-Saharan Africa. The priorities shown here are obscene. (Martin Wolf, *Why Globalization Works*, p 215)

Subsidies are ill-understood as a show-down between rich and poor; they set parameters for the world market in certain products that are beneficial for some and detrimental for others

Disregard here that subsidies are (often) against economic wisdom, cause deadweight losses, etc.

Under what conditions do people have a claim to subsidies against their government? In coordinated market economies individuals at least have a stronger claim to subsidies than in liberal market economies, because the labor market and the accompanying social policies (plus other institutional complementarities) are arranged so as to make it irrational for works not to overspecialize. But does this really amount to an actual claim to protection in one's chosen line of business even if doing to is detrimental to the overall economy?

The more one can make plausible a link between trade and growth and growth and other goals (such as the Millennium Goals), or the more one can make plausible a direct link between trade and those Goals, the more there is pressure on developed nations to constrain the duties they own to their own accordingly and to discharged them in "not trade-distorting" ways.

Possible Solution: The proportionality aspect of fairness applies here. Discontinuing of trade-distorting forms of aid to domestic producers can be expected in light of the gains from overall trade liberalization; in addition, those gains would have to be used to help those countries who lose through liberalization (e.g., net-food importers).

Three problems: (a) Conceptual – what is the difference, really, between trade-distorting subsidies and non-trade-distorting subsidies? (b) Economic: how important is trade actually for development (i.e., how much does it affect the growth rate, rather than leading to a one-time improvement); (c) Political: gains made through trade liberalization will not actually be used for helping those who will be negatively affected.

But: Transition to the Weak Westphalian View is ensured.

The Three Westphalian Views

Strong Westphalian View (SWV): Trade policy is every country's own and exclusive affair. As long as the production processes themselves do not harm other countries, the social costs of producing and the prices of goods from a country should not be subject to external interference, unless such production involves atrocious activities such as slavery. The world market prices of goods from other countries must be accepted in much the same way in which climatic conditions must be accepted: their change cannot be demanded as a requirement of fairness, nor do such prices by themselves give individuals *elsewhere* claims in fairness to governmental protection such as subsidies. Different countries do not stand in a relationship to each other that allows for fairness considerations to arise: they do not owe each other anything as far as the determination of prices is concerned, nor do governments owe anything to their own citizens based merely on what social costs are elsewhere.

Moderate Westphalian View (MWV): It is up to each country to determine the social costs of production. However, the production processes themselves must not harm other countries, and the effects of trade must be distributed in such a way that no negative rights are violated. Violations of this latter condition give rise to claims in fairness to the trading partners by those who lose out in the process, and constitute *pro tanto* reasons to suspend or restrict trade, and conceivably also for intervention through non-trade-related measures (for sufficiently severe violations); however, these reasons may not be conclusive. Changes of world market prices of goods from other countries that have been determined without the violation of negative rights cannot be demanded as a requirement of fairness. Still, prices of goods from other countries may, under certain conditions, give individuals claims in fairness to protection from their government if they negatively affect these individuals' interests and have arisen in ways that are at odds with domestic social standards. However, these claims to protection would have to be weighed against competing economic interests in free trade and may not be conclusive either.

Weak Westphalian View (WWV): Every country's trade policy is subject to constraints in fairness that limit how it can determine social costs of production. First, the production processes themselves must not harm other countries. Second, the effects of trade must be distributed in such a way that no negative rights are violated. Violations of this condition on the distribution give rise to claims in fairness by those who lose out in the process to the trading partners, and constitute pro tanto reasons to suspend or restrict trade and conceivably also for interference through non-trade-related measures by the trading partners; however, it is a separate question whether these reasons are conclusive. Third, world market prices of goods from other countries may, under certain conditions, give individuals claims in fairness to protection from their government if they negatively affect these individuals' interests and have arisen in ways that are at odds with domestic social standards. However, these claims to protection would have to be weighed against competing economic interests in free trade and may not be conclusive either. Fourth, trade policies must be devised in such a way as to be consistent with duties to poor countries. Therefore, countries have pro-tanto reasons to determine prices in such a way that they take into account their effects on third parties.