

Free Trade Vs. Fair Trade

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Abstract

In 2011, Ian Fletcher published an important book, *Free Trade Doesn't Work: What Should Replace It and Why* (Fletcher 2011). In it, he details how the notion of “free trade” certainly entails some level of benefits but also entails oft-overlooked costs. Particularly, the book points out that one of the major costs of free trade is the destruction of decently paying jobs as an economy shifts away from tradable services to non-tradable services. Contributing to this shift is the increasing abundance of cheap labor in other, less-developed parts of the world which the U.S. companies can task with the production of tradable goods (e.g. Apple iPhones are assembled almost exclusively in China). The results are a decrease in the number of these types of jobs in the United States, a decrease in the wages/salaries of these positions, or both. Further, because these countries are less-developed, it is unlikely that they have the same labor standards that American citizens enjoy -- laws against child labor or workplace safety regulations, for examples. In fact, in an effort to attract jobs, these foreign governments may even actively block any attempt to raise the minimum working standards through regulation. Without these standards or any other form of protection against exploitation, the story goes, workers were unable to prevent their employers from engaging in abusive business practices, giving rise to sweatshop and child labor throughout the third world. Because of the ready availability of cheap labor, American businesses relocated their manufacturing plants and were able to reduce the price that American consumers of these goods paid. Increasing sales and decreasing costs means increasing profitability, which only led to an increase in what became known as outsourcing labor.

In the late 1970s and early 1980s, there arose a movement for what has come to be known as “ethical consumerism” The idea is that consumers in developed nations, with their immense wealth, have the opportunity use their commercial influence (i.e. their dollars or euros) in a way that promotes the ethical treatment of workers by only buying from companies that treat their workers in a fair and ethical way. The problem was that very few of these consumers had the means or the inclination to travel abroad to inspect the working conditions of the workers who produced the goods they purchased so that they could make the necessary informed decisions. Left to their own devices, the uninformed consumer made decisions based on price

and quality without consideration of the ethical treatment of the producer. Given that treating workers ethically is also costly, even the most conscientious of consumers flocked to the lower priced goods and perpetuated the problems. What was necessary was a way to demonstrate that the good was produced in an ethical way and that therefore the increased price was justified. Without a way of detecting and punishing lying, unethical businesses were free to charge higher prices and claim that they were treating their workers ethically. As a result, a consumer who was either unable or unwilling to verify these claims could easily be misled into unintentionally supporting even more unethical behavior.

To address these problems, the Max Havelaar Foundation was established. This organization's mission was to inspect and certify that corporations around the world were following agreed upon standards in their business operations. Some of the agreed upon standards were: democratic and transparent decision making within farm coops and worker associations, an outright ban on child labor, provision of employee training in areas such as workplace safety and financial management, and certain requirements designed to promote environmental considerations. If all of the standards were satisfactorily met, the product would be "fair trade certified" and given permission to use a special mark on their products. Seeing this mark, consumers were able to confidently purchase goods knowing that they were produced in an ethically agreeable manner.

Today, there has been a resurgence of the ethical consumerism movement, with the idea being that free trade has expanded beyond its usefulness. Put another way, at the current level of free trade that is observed in the world, there are trade-offs between free trade and fair trade -- i.e. the only way to increase fairness is by restricting free trade. Further, proponents of the fair trade movement posit that by restricting free trade, the lives of the least-well-off in the world will be improved. This paper empirically investigates these claims. I find that they're both wrong. Citizens in developing countries that have the lowest concentration of fair trade organizations have become wealthier, healthier, more educated, and politically freer. Conversely, citizens in countries where the fair trade movement is strongest have experienced stagnating (and sometimes even declining) income, shortening lifespans, smaller gains in education, and endure increased political oppression. The data unambiguously supports increasing free trade as a direct means of accomplishing the goals of the fair trade movement. In other words, there is no trade-off between free trade and fair trade. Instead, the two go hand-in-hand -- increasing free trade increases fair trade; decreasing free trade decreases fair trade.]

These findings have significant importance for the 2016 presidential election. With Donald Trump arguing that the United States needs to "get tough on trade," one can only presume that he wants to restrict free trade between the United States

and certain other countries. Similarly, Hillary Clinton has also promised to “Prevent countries... from abusing global trade rules and reject trade agreements that don't meet high standards.” Because free trade and fair trade go hand-in-hand, a reduction in free trade will lead to a reduction in fair trade.

That both major parties have such a gross misunderstanding of this fundamental insight belies an underlying problem: a lack of effective economic education in the classroom. Policy makers certainly need to be better equipped for the pressing issues of today, but so too must scholars, educators, students, and the public writ large.

References

Fletcher, I. (2011) *Free Trade Doesn't Work: What Should Replace It and Why*. 2011 Ed. Sheffield, MA: Coalition for a Prosperous America.

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Relevance to Marketing Educators, Researchers and Practitioners: The analysis provided here will help frame the discussion of future policy decision-making and trade practices. It also contests

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