

Is Fairer Trade Compatible with Freer Markets?

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Fair Trade vs Free Trade

- Contentious issue
- Conference brings together:
 - Multiple points of view from multiple disciplines.
- Participants asked to respond to leading questions based on their own research
- Q&A session at the end of the day with Professor Aaronson

Perspective About Fairness in Trade

- Fair trade: code for anti-free trade?
- Too simplistic
 - A sense of fairness arises early in people's lives
 - Fairness is important to people. Does anyone want trade to be unfair?



So what does fair trade mean?

Fairness in International Trade

- Previous research identified ways fairness was applied in trade policy discussions
 - “A Positive Theory of Fairness in International Trade” (2000)
 - “International Labour and Environmental Standards Agreements: Is this Fair Trade?” (2002)

Multiple Conceptions of Fairness

- Non-discrimination
 - Embodied in MFN in the GATT/WTO
 - Identical trade policies towards all other members
- Positive Reciprocity
 - Embodied in trade negotiations; quid pro quo
- Negative Reciprocity
 - Embodied in WTO dispute settlement
- Rules of the game
 - WTO exceptions (Trade Remedy Laws)

Fairness and Equality

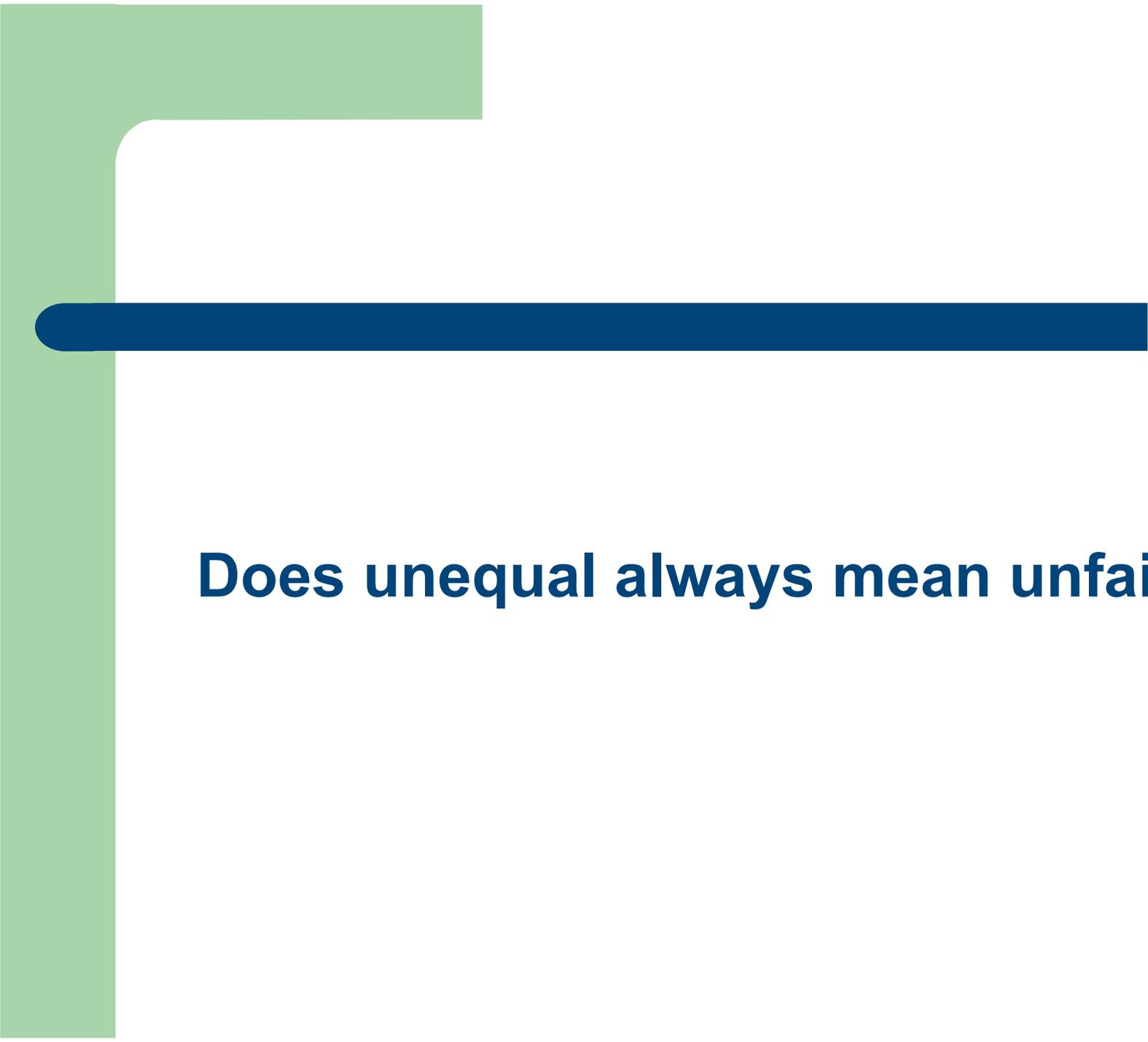
- To many people, fairness usually means something about equality
 - Equality is a feature of the fairness principles
 - Reciprocity involves equality of the quid pro quo
 - Non-discrimination involves equal treatment
 - Following the Rules of the Game involves equal constraints and allowances

Fairness and Equality

- For some, fairness and justice may require equality of outcomes
 - For example, equal wages or incomes
 - Capabilities or functionings - (Amartya Sen)

Fairness and Equality

- But if fairness means equality ...
- Then inequality means injustice and unfairness,
 - So, much lower wages in LDCs is unfair
 - Much higher wages to CEOs is unfair
 - Rich getting richer and the poor getting poorer is unfair.



Does unequal always mean unfair?

Scenario #1

- Person A

- Collects wood from forests, cuts, sands, shapes, nails boards to make a table, stains it, takes it to market, and sells it
- Buys a fabulous meal with steak, lobster, wine, and dessert



Scenario #1

- Person B
 - Lounges around all day watching television
 - Doesn't go to the market and has nothing in his fridge



Scenario #1 - Unequal but not Unfair

- Day-end outcomes (real incomes) are unequal
 - Person A is much richer than Person B (unequal)
 - And yet ...
 - A worked hard for his meal
 - B was lazy and had nothing to trade at the market
 - Each received an amount proportional to his effort (reciprocity fair)

Scenario #2

- Person B behaves like A in Scenario #1



- Person A behaves like B in Scenario #1 but...



Scenario #2

- After “B” returns home with his gourmet meal, “A” sneaks into “B”'s house and steals it away



Scenario #2- Unequal and Unfair

- Outcome (real income) is identical
- Outcome easily considered unfair
 - “B” worked hard and was not rewarded. He feels ripped off!
 - “A” was lazy (albeit sly!) and consumed heartily despite little effort.
 - Each received an amount disproportional to his effort or desert (reciprocity UNfair).

Scenario #3

- Person A behaves as in Scenario #1



Scenario #3

- Person B behaves as in Scenario #1 but...
 - He is physically handicapped and unable to produce anything to sell at the market
 - So, he has nothing in his fridge



Scenario #3- Unequal and Unfair?

- Again, day-end outcomes (real incomes) are unequal
 - Person A is much richer than B
 - Unequal and unfair?

Scenario #3 - Unequal and unfair?

- This outcome may or may not seem unfair
 - Each received an amount proportional to his effort (reciprocity fair)
 - But that “B” could not produce as much is not his fault (presumably)
 - Of course, it is not “A”s fault either (presumably)
 - Perhaps, outcome is unfortunate, but not unfair.

Solution for Unfortunate Outcomes

- Compassion
 - A voluntarily gives some of his hard earned meal to B. Both A and B benefit, **if** the transfer is truly voluntary



Solution for Unfortunate Outcomes

- Transfers

- The government taxes A (takes part of his meal) and subsidizes B (gives that meal to him)
 - If the government transfer is acceptable to A then-
“no harm, no foul”.
 - If the transfer is not acceptable to A (involuntary), then A will feel ripped off as when the meal was previously stolen.



Scenario #4

- Person A behaves as in Scenario #1



Scenario #4

- Person B also behaves like Person A in Scenario #1 but...
 - He spends just as much time and effort producing Sham wows
 - Goes to market, but no one wants to buy a Sham wow...so he lowers the price to sell his product
 - Goes home with a steak but no lobster or wine

Scenario #4- Unequal and Unfair?

- Again outcome is unequal
- But, each received an amount proportional to, not effort, but to the value of his production (still reciprocity fair)
 - Unfair according to labor value theory
 - Fair according to value of marginal productivity

Scenario #4- Unequal and Unfair?

- Is it B's fault that he produced a product with less value? Perhaps?
- Is it A's fault? Surely not!
- Outcome is unequal and unfortunate but does not seem unfair.

So, is inequality unfair?

- Inequality of outcomes need not mean unfairness or injustice
 - Must ask how did the inequality arise?
 - Unfairness depends on both outcomes AND processes

So, is inequality unfair?

- Simple market transactions are generally fair.
- Voluntary quid pro involves equal reciprocity.
- Fairness and free markets can be compatible

Unfair Outcomes

- Unfair outcomes generally involve someone feeling ripped-off (stolen from, plundered...)
 - High CEO salaries...especially when the organization has been losing money (??!!)
 - Poor country workers: working hard but receiving little

Unfair vs Unfortunate

- Important to distinguish unfair inequalities from unfortunate inequalities
 - Unfair inequalities (ripoffs) should be minimized with legal rules and sanctions (role for government)
 - Unfortunate inequalities should inspire compassionate responses (Charities, NGOs, etc).
 - But, unfortunate inequalities should not be resolved using involuntary transfers (more ripoffs)

More Info

- Forthcoming Suranovic Book
- “A Moderate Compromise:
Policy Choice in an Era of Globalization”
(2010, Palgrave-McMillan)
- Today’s Conference
 - Fair Trade Movements
 - CSR, Corporate Social Responsibilities
 - Labor Market Practices