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# **Is Trade Justice Just? Is Fair Trade Fair?**

Prof. Philip Booth

IEA Discussion Paper No. 10

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**Is Trade Justice Just? Is Fair Trade Fair?**  
**Prof. Philip Booth**  
**Editorial and Programme Director, Institute of Economic Affairs, April**  
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**Talk to Mid-Sussex, Churches Together Peace and Justice Groups**

**Introduction**

There are several old jokes about economists, none of them very funny. Perhaps the best known is, "if you have six economists, you will have seven points of view". The reason I wanted to participate in this event tonight is because issues of trade are the most complex in economics and I believe that people who have been promoting discussion on these issues have lost sight of the fact that there is, in fact, another point of view.

Fundamental to understanding the relationship between trade and material well being of the poor is an understanding of why people in the so-called developing world are poor in the first place.

The reality of life in many underdeveloped countries is an absence of the basic features of good government. These features are stated lucidly in the Catholic Catechism. They are: peace, the rule of law, the authority of law, the absence of corruption, independent judicial processes, the enforcement of contracts, basic free markets or freedom to exchange goods and services, and the enforcement of property rights. You can summarise these characteristics (to which the Catechism also adds sound money) in two words: *peace* and *justice*. It is impossible for us to envisage what life is like in countries where these conditions do not exist: for example, to live in a country where we cannot prove that we own the land we have farmed for decades; to not be able to borrow money to start a small business because we cannot prove title to our house; to not be able to obtain a licence to trade without bribing an official and so on. In Delhi and Bombay these problems lead to land values being ten times as high relative to income as they are in Tokyo. Economic life and development simply cannot get off the ground in such circumstances.

These issues should be the basic starting point for any constructive discussion of poverty. Every other economic policy in the economist's toolbox is secondary to having these basic requirements of good government in place. People who are poor are not, on the whole, poor because of the world's trading arrangements but because of problems of governance in poor countries. These issues are *far* more important than any issues to do with trade.

## The Trade Justice Movement

To be generous to it, the trade justice movement would argue that we have to accept our imperfect world as it is; that we do not have the authority to change bad governments and that the poor, who may not wish to live in countries that are badly governed, can be helped by a different approach to trading relationships. I am afraid that this is unlikely to be the case.

Economists have a phrase that is their equivalent of the “road to hell is paved with good intentions”. It is that we ignore the law of unintended consequences at our peril. There are both seen and unseen consequences of economic policies and the problem with many of the policies of the trade justice movement is that whilst the consequences we can see may be favourable those that are unseen are not. I can understand why their policies are so attractive to development workers. They can see the immediate help they might provide to specific people – but without seeing the damage they cause to others.

Broadly, the trade justice movement would like developing countries to be able to regulate trade in ways that would not be permitted under international free trade agreements. Even in the best of hands, such regulations have the unhappy knack of keeping resources in the least productive parts of the economy. The mechanisms are sometimes complex but there are some obvious examples around. For example, the concentration on heavy industrial investment in the 1970s, in protected sectors in African countries was a disaster and is at the root of much third world debt that aid charities blame on western governments. On the whole, trade works better without governments trying to direct it and industries develop better if they are not protected, even in their infant stages, by their governments<sup>1</sup>.

But there is a much more serious issue than this.

The countries that the trade justice movement wishes to help are those with the worst governments: it is in those countries that the poorest people in the world live. Trade regulation in the hands of such governments is potentially

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<sup>1</sup> It is commonly suggested that under-developed countries need to be able to protect their industry, even if the West does not protect theirs. The reason for this, it is suggested, is that under-developed countries will not be able to “compete” with efficient agriculture in non-protectionist countries such as New Zealand. This is a common fallacy that was dealt with in the classical economics literature a couple of centuries or so ago. The whole basis of trade is that we produce what we are *relatively* best at producing. If wine and bananas are the only two goods and, if Portugal is more efficient at growing both bananas and grapes (for wine) than, say, Brazil, Portugal will not end up growing both bananas and grapes and Brazil growing nothing. If Portugal is even more of an advantage in growing grapes for wine than bananas (a comparative advantage in grapes in the economic jargon) Portugal will gain from devoting all its resources to grapes (because it is so much more efficient) and selling wine to Brazil in order to buy bananas produced there. Everybody is better off from trade although Brazil will probably be poorer than Portugal. Countries all end up doing what they are *relatively* best at. There are conditions under which this does not hold but, in practice, the dangers of pursuing this argument and protecting industries in developing countries would seem to far outweigh the advantages.

catastrophic. It leads to greater politicisation of economic life – something the people of poor countries are trying to escape from. When trade regulation involves quotas and tariffs, the opportunities for corruption are huge – and those opportunities are taken with relish. Quotas are exchanged for favours; tariffs can be avoided by bribes. Regulations can often be circumvented by large multinational corporations – trade regulation can actually entrench the position of the organisations that the trade justice movement hates the most whilst the competition, including the competition from domestic industry, is kept out!

The unseen consequences of trade regulation are invariably more detrimental than the more obvious, if slight, benefits. The regulation of the coffee market, for example, encouraged the mass planting of coffee that led to today's low prices. Encouraged by the trade justice agenda, Kenya has raised import tariffs on EU second hand clothing to protect its textile industry – controlled, on the whole, by the relatively rich and powerful. A Kenyan MP recently explained how this damaged the livelihood of 10 million Kenyans who work in the second hand clothing sector, as well as lowering the real incomes still further of 56% of Kenyans who rely on second hand clothing as they live below the poverty line.

Once this superstructure for trade regulation has been developed within a government, there is no stopping it interfering in all trade. All countries, including the best governed, but particularly the worst governed, need external constraints on the behaviour of their governments – that is precisely what the World Trade Organization seeks to achieve.

One of the Trade Justice Movement's main objectives is to allow developing countries the power to regulate trade to allow themselves time to develop. But it is, in fact, invariably poor countries that regulate trade the most. Compare Chile with Brazil; Botswana with Ghana; Hong Kong with Nigeria; Estonia with Rumania. It does not matter how you sort the evidence. It is quite clear that poor countries do not suffer because they do not regulate trade enough. The first of each pair is the more open to trade and absolute poverty has become or is becoming history. The latter of each pair is unremittingly protectionist and I predict they will have the poor with them for decades to come. It is also clear that free trade and good governance both reinforce each other and precede growth. You do not have to go to Kenya to see how trade regulation feeds corruption. Our own EU accounts have not been signed off by the auditors for a decade largely because of corruption in the EU Common Agricultural Policy. Trade regulation attracts corruption like a magnet and corruption is the poor person's biggest enemy.

Indeed, trade, *free trade*, has been the engine of growth for the *previously* poor countries of the world. East Asia in the 1950s was even poorer than Africa is today. Sadly many very poor African countries have persistently refused to engage in trade, not just with developed countries, but with fellow developing countries too.

## **The Church and Trade Justice**

Closer to home, I want to comment on the way our diocese, and other Christian churches, are promoting the trade justice movement. This is not just an issue of the Church's involvement in political matters – I shall come to that later. But where it is right for the Church to be involved in political matters it should not get involved by supporting political pressure groups. The Trade Justice Movement does not have any moral authority, it acts like a political pressure group, it campaigns like a political pressure group and it talks like a political pressure group. Let me give you a couple of examples. Christian Aid is a charity supported by all 40 UK Christian denominations except the Catholic Church. Christian Aid ran a full page advertisement in the Times describing *free trade*, AIDS, famine, drought and tsunamis as the evils of which we must rid the world. Try telling that to the people of Hong Kong who arrived in complete poverty in 1944 on a rock devoid of natural resources, who multiplied their population tenfold in two decades, and who not only fed themselves but became richer than their colonial masters in four decades. What was it that transformed their lives? Two things: good governance and free trade.

Two more examples: this time statements exported straight from the Trade Justice Movement's pronouncements into the debate on trade justice in the general synod of the Church of England. They say, "Globalisation has yet to work for the benefit of the world's poor" and "Poverty and inequality have reached unprecedented levels." These are the sort of assertions one would expect of politicians in a poorly informed Parliamentary debate. Poverty and inequality in the world have reduced quite markedly since the recent rounds of trade liberalisation as many previously poor countries have lifted themselves to unprecedented levels of prosperity. There are still many desperately poor countries because, whilst freer trade has allowed rich and poor alike to prosper more, there are some countries that are still mired in absolute poverty because of the way they are governed and because they simply do not engage in trade with the outside world at all.

Here is a list of five countries that have grown much faster than the world average over the last ten years: Sri Lanka, Pakistan, Chile, China and India<sup>2</sup>. Here is a list of six countries that have grown less quickly than the world average in the last ten years: the US, the UK, Japan, Italy, Germany and France. The second list is the six biggest economies in the world. The rich are getting relatively poorer. The average Indian is almost twice as well off today as he was ten years ago, the average Japanese or German is hardly better off at all. In thirty years time, it is quite possible that the national income per head of India will be higher than that of France, just as some of the once

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<sup>2</sup> I should stress that I am not suggesting that these countries are all good examples of developing countries reforming and becoming richer – some of them have reformed, to varying degrees. I am simply making the limited point here that Western Europe and Japan is broadly stagnant whilst many poor countries are growing and poor countries that are reforming their internal governance are growing rapidly. If globalisation has left poor countries behind it is only in those countries where there has been no or little internal reform. It is worth noting that national income per head in Botswana is twelve times the level in Kenya. Botswana is extremely open to trade; it is also land locked and has a terrible AIDS problem.

impoverished countries of East Asia are now as rich as Britain. Indeed, the essence of trade is that it allows people to grow rich together.

I mention those issues because there are so many myths abounding about the causes of poverty and the facts relating to trade. There are myths abounding because the Trade Justice Movement is a political movement masquerading as a moral movement. It talks the language of politicians. So I think it was inappropriate for our Bishop, as it would be for any clergy, to stand in front of a mock ballot box with the headline “vote trade justice” the week before the Euro elections. I might also add that I simply cannot square clergy’s championing of the trade justice movement with the Catholic Church’s teaching that, “the Church, because of her commission and competence, is not to be confused in any way with the political community. She is both the sign and the safeguard of the transcendent character of the human person.” (Catechism, para 2245). It goes on to stress the importance of lay activity in these areas and the importance of pastors keeping their distance.

But charities should be careful too. They should not assume that those who, out of charity, wish to help the poor, share the political objectives of those who run them.

### **Free Trade**

Those on our side of the argument are desperate for free trade, for example in manufactured goods (particularly processed food) and in agricultural products. And we are also wary of the imposition of hurdles to trade through regulations relating to the protection of intellectual property. These are all part of the trade justice movement’s agenda: and I agree with them. Rather as in the nineteenth century, with the movement for free trade in corn, I think that a popular coalition between those of us who believe in free trade and those who work in charities aiding the poor might be able to spur governments into action and defeat the protectionist lobbies. But that coalition is undermined by the language that many in the trade justice movement use in criticising free trade.

These issues of extending *free* trade are vital for the developing world. Even if the trade justice movement were right about the regulation of trade, and I do not think they are, the gains from their policies would be trivial compared with the gains from *free* trade in manufactured and agricultural products. Take chocolate for example – it is a microcosm of the problem. 90% of cocoa is produced by developing countries but how much chocolate? Only 4%. There is no EU tariff on cocoa, but the EU tariff on processed chocolate is twice the average profit margin at 18%. As another example, it will not surprise you to learn that the cost of protecting the US sugar industry is \$1million per job per year. Alternative opportunities for the poor in the developing world are limited by these practices. This is the fault of the developed world and it is the *absence* of free trade, not its presence that is the problem.<sup>3</sup>

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<sup>3</sup> I have no sympathy for the trade restrictions of the developed world (basically they are imposed by the US, Japan and European countries) however, it is important not to be seduced by a particular argument with regard to these. It is commonly suggested (or at least implied) that the West is feathering its own nest by protecting its own agriculture and

## Retail Fair Trade

I now want to turn to fair trade in the sense of the market in retail fair trade products. This is a rather different subject. It is not political in the narrow sense. Although its proponents frequently find it convenient to move seamlessly from the issue of buying so-called fair trade products to the political issues of so-called trade justice.

The essence of fair trade is that it provides a particular type of contract to the producers of primary products in particular situations. People have often said to me, “You against fair trade aren’t you”. So, let me make it clear, I am not against fair trade, but I would argue that it does not, as some like to suggest, exist on a higher moral plane than other types of trade.

In the modern world we all like to think that we are in control, able to find solutions to specific problems. We like to think “if we do A, B and C then the desirable consequences of X, Y and Z will happen.” Well, they might but, also, the undesirable consequences D, E and F may happen too!

A typical fair trade contract will often involve fixing the price of a product to protect the grower from falls in the market price; it will encourage a particular form of corporate organisation such as a cooperative and it will benefit small, rather than large farmers. These things may be good. They certainly should help those involved in organising their production this way, but we should consider the wider impact. What happens if there is adjustment to world supply or demand and prices in one part of the market are fixed? Prices in other parts of the market must fall by more – other growers suffer more. What happens to those employees of large producers when fair trade consumption shifts away from them towards small producers who frequently offer poorer working conditions than the multi-national corporations? They may have no alternative employment. Furthermore, how does the market as a whole react when prices in part of it are less flexible? Oversupply may well persist for longer, to the long run detriment of all producers.

The issue as I see it is this. Fair trade may well help some people it is designed to help just like, say, the cooperative movement of the nineteenth

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preventing developing countries protecting theirs. It should be understood that protectionism mainly (and sometimes only) harms the *protector*. The main loser from EU agricultural protectionism is EU consumers and taxpayers. The gainers are a small number of EU farmers. Developing countries also lose too but the protector does not gain. Similarly, the losers if developing countries respond by protecting their agriculture are developing countries themselves – they do not gain from those policies. The point about EU trade restrictions is not that we are doing something that benefits us but preventing developing countries from doing it: it is that we are protecting our agriculture in a way that harms both us *and* developing countries. The WTO process has two advantages. It gives participants an “excuse” to over-rule protectionist lobbies (it has been successful in this regard even in the EU). It also allows multi-lateral removal of trade barriers so that all countries can be seen to be removing them together to everybody’s mutual advantage. It is also worth noting that poor countries are, on the whole, very protectionist: much, much more protectionist than (say) the USA or EU. If protectionism worked it would have done so by now – it has had plenty of opportunity!



century. But, there is nothing particularly contrary, and certainly not immoral, in expressing the view that the help for such people may come at the expense of harm for others – people whom we will never meet and perhaps not even be able to identify.

My criticism of the retail fair trade movement is limited to the way in which it has been promoted. Fair trade proponents should not pretend that it exists on a different moral plane from alternatives. Diocesan clergy should not say, as they have, that those who do not buy fair trade products are being consciously sinful; diocesan clergy should not say, as they have, that not buying fair trade products is depriving a labourer of their wages and a sin worse than theft. Perhaps to prove that fair trade, whilst perhaps being prudent or appropriate, does not exist on some higher moral plane, the biggest retail promoter of fair trade products, the Coop, is also the country's biggest recipient of subsidies from the EU common agricultural policy. There is no doubt whatsoever that the subsidies do more damage to the developing world than the sale of fair trade products does good.

Whether to buy fair trade products is a personal, prudential judgement, and the diocese should not declare itself a “fair trade diocese” any more than it should declare itself a “cooperative funeral service diocese” or a “mutual insurance society diocese”. *Those involved in promoting retail fair trade should certainly not use the goodwill generated through that movement to draft people into the political trade justice movement as if one were just a natural extension of the other.*

### **The Teaching of the Church**

Finally, I want to say something about the role of clergy and the Church. The Catholic Church has a social teaching or a social magisterium. But where does that lead us in terms of practical politics and pastoral leadership? Several things are fairly clear, but other issues are left, perhaps deliberately, opaque<sup>4</sup>.

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<sup>4</sup> I have deliberately limited myself to one issue here – the fact that clergy have no special knowledge of or competence in matters to do with trade economics. Other points are worth making very briefly that the reader may wish to follow up. First, the Church is very reticent about suggesting the state (or the political system) as the solution to problems of poverty. This is for several reasons – it uses systems of compulsory taxation that undermine the dignity and responsibility of persons and families. But also because the Church is aware that the state itself is an imperfect (also secular and distant) human mechanism. Examples of the state, sometimes (but not always) with the best of intentions, trying to make a bad situation better but making it worse in practice abound. If there are imperfections in this world, why should these be resolvable by centralising power in government to effect economic change? Do the people in government not suffer from the same imperfections too? This is particularly true of course where mechanisms of government are ineffective or corrupt in the ways described at the beginning of the paper. The Church teaches that the first vehicle for social initiative (after individual and family charity) are wider social groups, professional associations and so on. In case it is thought that these are ineffective it is worth bearing in mind the incredible level of charitable giving in (say) nineteenth century England and in the US today. Over 20% of the finance for the campaign to eradicate polio from the world was finance by the US Rotary Club alone. The Gospel imperative to help the poor is an instruction to us to use our generosity and our free will. It is not an instruction to elect a politician, who will support a

One of those opaque issues is, in fact the role of free trade. The Church teaches that free trade is not necessarily, everywhere right, but does not tell us where free trade is not right. I, like most other economists, conclude that the poor are best served by the extension of free trade and not by the policies of the trade justice movement – except where they coincide.

Nobody can seriously argue that the Church's teaching in this field leads you inexorably towards the policies of the trade justice movement. The Church is cautious in recommending that the vehicle for social objectives should be the political system or the state. Why then, do so many Christian clergy and our own Bishop talk as if this issue is one on which Church teaching points in one direction only?

The Church is the Church of *all* the people of God. Those of us who believe in free trade should not be made to feel as if our views are not compatible with Gospel values.

In fact, the Church teaches that there is a political arena where these things should be discussed and debated by Christians, but that Bishops and other clergy should be cautious in their statement about matters relating to political arrangements in this world<sup>5</sup>. The Church teaches that clergy have no special knowledge or authority on the detail of these matters and that they should not casually claim Christ's authority when teaching about them. I am not the only Christian who feels that the constant stream of advice from ordained religious ministers on matters of trade policy does not contribute to our understanding of important economic issues facing us in this world. And sadly it bypasses the more vital issues relating to our destiny in the next world, on which we do look to our pastors for guidance.

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government, that employs a bureaucracy that extracts taxes from our neighbour to send to another government that *might* use that money to help the poor. The primary function of the state is to maintain justice in its proper sense.

<sup>5</sup> But clergy do have a duty to remind the laity who do have a vocation in this field to follow it in good conscience and good will.