

**Is Fairer Trade Compatible with Freer Markets?:
Fairness in the Real World**

Douglas R. Nelson

The Murphy Institute
Tulane University
New Orleans, LA 70118
&

Leverhulme Centre for Globalisation and Economic Policy
School of Economics
University of Nottingham
Nottingham NG7 2RD

Paper prepared for Institute for International Economic Policy conference on *Is Fairer Trade Compatible with Freer Markets*. The Elliott School of International Affairs, George Washington University, 4-5 March 2010.

Is Fairer Trade Compatible with Freer Markets?:

Fairness in the Real World

I find myself in an awkward position: on the one hand, I've spent a good bit of professional time and effort over the last several years working explicitly on fairness, and the ways widely held values might constrain the politics of international trade (so one might think I'd have at least something like an answer to the core question of this conference); but, on the other hand, the overall conference title, and the questions operationalizing this panel's topic, don't lend themselves to answers based on the work I have done.¹ Let me start by, briefly, laying out my concerns/confusions, and then I'll turn to a discussion of "fairness in the real world".

With respect to the overall question—Is fairer trade compatible with freer markets?—without a definition of "fairer trade", I have no idea how to give an answer. That is, I know what "free trade" means, and (although there are some technical difficulties) I have a pretty good idea of what "freer trade" means. I have, quite literally, no idea what "fairer trade" is supposed to mean. Note that I don't mean I think "fairness" is an unimportant concept in thinking about trade policy (or any other policy for that matter). What I mean is that, in this context, it is a term of public political discourse and, as such, highly contested. From a purely academic point of view, I find thinking about fairness in trade extremely difficult (there are interpersonal, international, and intergenerational issues, and that's just a start). Given that my personal opinion about what constitutes fairness has no more significance than anyone else's (except, perhaps, that of policy-makers, whose sense of what fairness means matters a lot), I find answering the conference subject's question essentially impossible. Loosely speaking, my hunch is that: 1) it is entirely possible to move from where we are now in the direction of both freer and fairer trade (under just about any useful definition of "fair"); but that 2) it is just as possible to move toward fairer markets in a way that restricts free markets, toward freer markets in a way that reduces fairness (again, under just about any useful definition of "fair"), and, sadly, it is certainly possible to adopt policies that restrict both fairness and freedom in the name of fairness and/or freedom (note that this was Polanyi's great fear in *The Great Transformation*). Not really very useful.

There is a sense in which the questions the organizers sent to operationalize the topic "Fairness in the real world" is getting at the right question, but I have a strong suspicion that they, along with most others, will be taken somewhat aback by my answer to the questions. So what are the questions?:

1. What does the public think about fair trade?
2. What does the public think about specific strategies to promote fair trade outcomes?

¹ Luckily for the other participants, Michael Hiscox, who is also a participant, is almost uniquely qualified to respond directly to both. Thus, I am a bit less abashed by what will be a bit of a dodge.

The first thing to note is that, at least from my point of view, these are very different questions. In both cases the reference is to public attitudes, but the first question relates to a macro question (i.e. the “fairness” relates somehow to the trading system), while the second is quite micro (i.e. the “fairness” relates to the way individual buyers and sellers are related through the system). I think it is pretty clear that the answer to both questions is: the average citizen (mean, median, whatever) doesn’t care ... at all. In both cases, there is a group (a fairly small group) that cares a lot. But that group, while occasionally able to generate enough random hangers on to generate some press (e.g. the Seattle ministerial), is never able to sustain politically effective interest. That said, the second question is, at least, well-posed. One can ask how many people are willing to pay a premium for fair trade goods, and is that premium big enough to sustain a fair trade supply side. Michael Hiscox has done good work in this area, and others are working here as well. I have nothing to say about the second question.

(Why) Does Public Opinion Matter?

From what I’ve said to this point, it probably sounds like I would dismiss public attitudes toward the fairness of the trading system as politically irrelevant. But this is not the case. How can lack of interest have any political significance? A sensible place to start is by asking: *Why do we care about public opinion on trade policy?* One possibility is that, we want to know because public preferences determine (or, possibly, should determine) trade policy. I think we can all agree, whether we think trade is too free or not free enough, at least as a positive matter, that public opinion does not generally determine trade policy. This is not because there are occult forces interfering with the will of the people, but because attributing a “will” to “the people” on this issue is virtually impossible because (as I have already noted) people, in general, just don’t care much about international trade. At least since the end of the Second World War, trade has not been a sustained issue of public discourse.² The few national politicians that have sought to use trade as an issue have been notably unsuccessful (e.g. Ross Perot); and, more often than not, the attempt to use trade has been an act of desperation that ended up providing no traction (e.g. Hilary Clinton in Ohio).³ Trade has certainly seen spikes of public interest, usually when a small, genuinely committed group has been able to attract a broader (less committed) group to focus attention for a short period of time (e.g. NAFTA or the Seattle WTO ministerial). But the essential point is that, unlike fiscal policy (“government spending”), macroeconomic policy, or welfare state provision, the issue is not contested in public in a sufficiently sustained way that people can form stable opinions about it. This is true even in moments when the issue is publicly

² In fact, trade was a significant public political issue, arguably the most important continuing issue of partisan competition, from the end of reconstruction until sometime in the mid-1930’s. What caused this transition is a matter of considerable dispute, but that is not a topic that for this venue.

³ On the whole, this has also been true of Congressional races as well. Given the centrality of Congress in the making of trade policy, this might be even more surprising than trade’s minor role in Presidential elections. It is interesting that this irrelevance is not true of all “globalization” issues. In particular, immigration generates sustained and quite visible public politics at the state level. Consistent with what I will argue below, this would seem to be a function of the way illegality, unemployment and foreignness come together with widely held notions of fairness in the politics of immigration.

contested.⁴ Given this fact, it is not at all clear that we would *want* trade policy determined by public preferences. Note that this is not the same thing as asserting that we would not want trade policy determined by the preferences we would like people to have. I return to this shortly.

In fact, trade policy is determined by a mix of historically/institutionally fixed drift and lobbying. Current public opinion can't have any effect on the past, so the question is: can public opinion be relevant to lobbying. Surprisingly, this is where public opinion matters, but not in any simple way. Certainly, to a first order of approximation, changes in trade policy are determined by lobbying which is essentially unconstrained by public opinion. The trade policy-making system is a classic "iron triangle". The relevant private interests are very well-organized and, perhaps more important, well-established. The elected and bureaucratic players are similarly stable.⁵ In the normal order of things, there is really no place for public discourse to matter. However, the potential for public politics to emerge on an issue does act as a very real, if loose and uncertain, constraint on the operation of iron triangles. Politicians, especially upwardly mobile politicians, are entrepreneurial with respect to political issues. If a sizable segment of the population seems unserved/miserved by the political system, an entrepreneurial politician will try to pick up that issue. But this means that politicians benefitting from a well-established lobbying system will make an effort not to deviate dramatically from public preferences where those preferences are well-established. To date, at least in the last half century or so, trade has never really worked out as an entrepreneurial political issue. However, that doesn't mean that trade cannot or will not someday serve this purpose.

More importantly, an entrepreneurial politician might well try to stimulate interest in an issue as a way of advancing his/her career. William Riker called the logic of this strategy *heresthetic* ["the art of political manipulation", as an addition to the three classical forms of discourse (the *trivium*): grammar, logic, and rhetoric]. For this to work, public preferences must be uncertain to politicians (otherwise such preferences would already be taken into account in the political equilibrium). This is the relevance of my earlier assertion that most citizens (the median/mean voter) don't know about trade policy and don't care about trade policy. This is also the reason why political entrepreneurs take occasional runs at this issue. It is precisely this same uncertainty that makes heresthetic an inherently risky strategy. But, by the same token, this is what makes the foundations of public opinion on trade policy so interesting, and at least potentially, important.

Fairness, Heresthetic and the Public Politics of International Trade

Among other things, heresthetic involves identifying an issue, not currently central to the public political discourse, whose introduction into that discourse shifts political outcomes. Riker's little

⁴ Keith Hall and I analyzed public opinion on NAFTA during the period of its public contestation and found aggregate public opinion remarkably footloose—i.e. it changed a lot, with no change in the fundamentals of the issue.

⁵ Again, it is interesting to note that the same is not true about the immigration policy-making system.

book (*The Art of Political Manipulation*) gives many examples, and Iain McLean's *Rational Choice and British Politics* has more (including an excellent discussion of Peel's repeal of the corn laws in precisely this mode). This is very much in the same vein as E.E. Schattschneider's description of public politics as a bar brawl in *The Semi-Sovereign People*. None of these treatments spend much time discussing what makes a new issue *potent*, they discuss why a given issue is structurally effective, but not why people respond so strongly to such an issue. This is where fairness becomes important. A standard response to the use of fairness in political discourse is that it *obviously is merely* a veil shrouding interest (i.e. no one would make a fairness based argument *against* himself). But this misses the point: reference to fairness is made to enlist currently unengaged interests in a political fight. If one can convince citizens that there is something fundamentally unfair about a political outcome, determined under current political conditions, one can enlist those citizens in an attempt to change the outcome. Thus, for many of the activists that use the language of fairness to talk about trade, the issue isn't so much that people are clamoring for change, but that *if they would just think about it correctly* they would be clamoring for change. Citizens should be led to see that trade is unfair. Again, this strategy has not really worked to date, but circumstances change, and it might in the future.

So what kind of claim "works" in linking trade to (un)fairness.⁶ It seems to me, very informally, that the combination that works is to associate trade with unemployment, in an environment where unemployment is seen as a general problem. For reasons that are not really clear to me, it seems to be a fact that citizens in general consider unemployment "caused by trade" to be deeply unfair.⁷ The key role of foreignness stems from the suspicion that "foreigners" have somehow stumbled on (or their state has engineered) a system that cheats—i.e. that produces a playing field that is not level. In the 1980s it was Japan (MITI; Japan, inc.; etc.), now it is China. Our playing by the rule of the free market puts us at a competitive disadvantage. And this competitive disadvantage is costing us jobs. Given that this cheating is causing unemployment, it is the responsibility of the state to respond. I don't want to argue about whether this analysis is correct or not. I do want to argue that citizens respond strongly to this argument—but only some of the time.

⁶ I'm going to abstract from claims about unfair treatment of workers generating an unfair advantage in competition with domestic firms, or simply that the treatment itself is unfair. This is an essential part of micro fair trade argument, and it works on some margin (i.e. there are clearly a non-trivial number of consumers that respond to this argument). However, I don't see this as an effective foundation for shifting attitudes on the overall structure of industrial country trade law. Among other things, the market seems the fairest way to deal with this. That is, if one is offended, one can choose not to purchase goods produced in unfair ways. Fair trade labeling seems just the right response here. Using the repressive power of the state (tariffs, quotas, etc) to force citizens that don't care to comply doesn't really seem fair to me. But this is beyond what I want to focus on.

⁷ By contrast, unemployment caused by technological change is seen as less of a problem. This isn't a qualitative difference, after all, citizens have responded very strongly to national competition against local firms (e.g. resale price maintenance and anti-chain store laws, as well as protests against WalMart). And, of course, there is the historical example of the followers of Ned Ludd. Nonetheless, there does seem to be a sizable difference in people's response to foreign, as opposed to domestic, competition.

Michael Hiscox presents convincing evidence that when survey respondents hear the word “unemployment” anywhere near the phrase “international trade”, they respond negatively. But if that is the case, why don’t fair trade activists simply broadcast this connection at every possible occasion. The answer is that they have tried, and it has generally not worked. I think the reason has a lot to do with context. Precisely because international trade policy is not an issue of continuing public discourse, its use relies on some specific event to raise the public attention to the issue—and this event needs to occur in the context of a broad concern with unemployment. Most of the time, the main occasions for effective public political discourse (i.e. election campaigns) occur with a wide variety of other issues appearing more salient than international trade policy. Part of the reason for this is that, at least since the Reciprocal Trade Agreements Act of 1934, trade has been seen as a foreign policy issue, of a rather technical sort, that is managed (more or less in the public interest, and more or less well) by the Executive branch. Furthermore, as an explicit part of the political bargain that created, and continues to sustain, the trade liberalization program, is the adoption and regular adjustment in fair trade laws (aka contingent protection—the Title VII laws, the Escape Clause, etc.). Citizens concerned with fairness can be directed to these laws that are explicitly framed in the language of fairness.⁸

Of course, the other part of the policy response to concerns about unemployment is welfare state provision and Keynesian macroeconomic policy. That is, as long as citizens believe that the state is committed to dealing with unemployment, and does so in a reasonably effective manner, there is no reason to be particularly concerned about international trade.⁹ So, when someone is faced with a concrete survey question about trade and unemployment, they will respond in the way that Hiscox (among others) identifies. But the public political discourse is not that situation. To date, when political entrepreneurs have sought to enlist the generally uninterested public in fairness related arguments about trade policy, there have generally been other issues that drew greater attention. This could certainly change. Should the public perceive that the welfare state no longer protects them (i.e. individuals themselves and their fellow citizens) from the negative consequences of unemployment, or that Executive branch (and the various fair trade laws) are not doing enough to protect citizens from “unfairly produced” foreign goods, the political environment that supports Liberal trade in an environment of weakly held opposition to such trade could evaporate. If these things happened in an environment of high unemployment, the demand for a national policy of protection could well be quite potent. It has happened before.

⁸ The use of this language drives economists crazy. But it has always seemed to me that the language, and the provision of relatively small amounts of protection in the context of relatively substantial liberalization, has been a politically very effective combination. This was also the view of Jacob Viner, not generally someone considered to be “soft” on protection.

⁹ That is also why, even though it is very hard to identify those workers that are actually displaced by international trade and not some other factor, trade adjustment assistance is part of the fairness structure supporting a generally Liberal policy.