

Fair Trade

Output Per Day of Work			
	T-shirts	Music CDs	Relative Cost
United States	20	10	2:1
Mexico	54	1	54:1

Free Trade vs. Fair Trade

- Many argue that we should restrict trade to nations that engage in "Fair Trade", including standards on hours and wages, child labor, and environmental conditions.

Free Trade vs. Fair Trade

- Many work under poorer conditions than Americans

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 - Unsafe work places, low wages, long hours and the use of child labor.
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 - Unsafe work places, low wages, long hours and the use of child labor.
 - American workers cannot compete against people working under such conditions.

Free Trade vs. Fair Trade

- Many work under poorer conditions than Americans
 - It is "intolerable" that people should work under these conditions we should refuse, on moral grounds to trade with nations unless they adopt "fair" labor practices.

Free Trade vs. Fair Trade

- Many nations adopt environmental policies well below the standards imposed in the United States.

Free Trade vs. Fair Trade

Many nations adopt environmental policies well below the standards imposed in the United States.

- They have an economic advantage because they do not have to give due attention to the environment
- By trading, we encourage practices that permit environmental degradation.

Three Arguments

- The Effect of Fair Trade on Mexico
- The Effect of Fair Trade on the US
- Why the Fair Trade Movement?

Fair Trade and Mexico

<i>Output Per Day of Work</i>			
	T-shirts	Music CDs	Relative Cost
United States	20	10	2:1
Mexico	5:4	1	5:4:1

Fair Trade and Mexico

<i>Output Per Day of Work</i>		
	CDs	Relative Cost
Mexico	1	2:1
Mexico	5:4	5:4:1

CDs used to cost Mexicans 3 t-shirts; now they will cost 2.5 t-shirts.

Fair Trade and Mexico

<i>Output Per Day of Work</i>		
	CDs	Relative Cost
Mexico	1	2:1
Mexico	5:4	5:4:1

CDs used to cost Mexicans 3 t-shirts; now they will cost 2.5 t-shirts. Instead of working 0.6 days to buy a CD, they must work 0.625 days.

Fair Trade and Mexico

<i>Output Per Day of Work</i>		
	CDs	Relative Cost
Mexico	1	2:1
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CDs used to cost Mexicans 3 t-shirts; now they will cost 2.5 t-shirts. Instead of working 0.6 days to buy a CD, they must work 0.625 days. And, of course, t-shirts are more expensive for Mexicans.

Fair Trade and Mexico

In short, Mexico will be poorer.

Mexicans 3. Instead of working 0.6

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Fair Trade and Mexico

In short, Mexico will be poorer.

Mexicans 3. Instead of working 0.6

And, of course, t-shirts are more expensive for .625 days.

While some Mexicans will gain from better working conditions, most will lose.

Free Trade and Democracy

- Free Trade leads to economic growth.
- Democracy and economic growth go hand in hand.
 - The wealthy nations are all democracies; the very poor are not
 - Economists and political scientists debate which is the chicken and which is the egg.

The Tentative Link

- Fair Trade practices restrict Free Trade.
- Reduced Free Trade leads to a lower Index of Economic Freedom
- A lower Index of Economic Freedom leads to a lower level of per capita GDP.
- A lower level of per capita GDP leads to a lower level of democracy.

The Tentative Link

- Fair Trade This is tentative at best.
- Reduced Free Trade This would not be the first time that a policy designed with one thing in mind (helping poor nations) ends up with the opposite effect.
- A lower Index of Economic Freedom leads to a lower level of per capita GDP.
- A lower level of per capita GDP leads to a lower level of democracy.

Effects on Americans

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Effects of Fair Trade on Americans

- If the price of t-shirts goes from 3 t-shirts to 2.5 for a CD, then Americans are worse off; instead of getting 30 t-shirts for a day's work producing 10 CD's they only get 25.
- Some Americans will benefit. Workers in the T-shirt industry will get 8 CD's, not 6.7.

Why support fair trade?

- Beginning with Adam Smith, there has always been a suspicion amongst economists that people claiming to act in the public interest are actually acting in their own self-interest.
- An example: minimum wage laws.
- So too with supporters of fair trade.

Supporters of fair trade

- Some supporters are genuine believers.
- But most support comes from the American t-shirt industry or the like.

End

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