

#### 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.

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Fair Trade

#### Free Trade vs. Fair Trade

 Many work under poorer conditions than Americans



Fair Trade

## Free Trade vs. Fair Trade

- Many work under poorer conditions than Americans
  - Unsafe work places, low wages, long hours and the use of child labor.
- Free Trade vs. Fair Trade
  - Many work under poorer conditions than Americans
    - Unsafe work places, low wages, long hours and the use of child labor
    - American workers cannot compete against people working under such conditions



Fair Trade

### 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.



Fair Trade

#### Free Trade vs. Fair Trade

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

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## 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.



Fair Trade

## Three Arguments

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

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#### Fair Trade and Mexico

Output Per Day of Work						
	T-shirts	Music CDs	Relative Cost			
United	20	10	2:1			
States						
Mexico	<del>54</del>	1	<del>5:14</del> :1			

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#### Fair Trade and Mexico

CDs used to cost	of Work	
Mexicans 3 t-shirts;	CDs	Relative Cost
now they will cost		2:1
2.5 t-shirts.		5:1 <b>4</b> :1

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### Fair Trade and Mexico

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

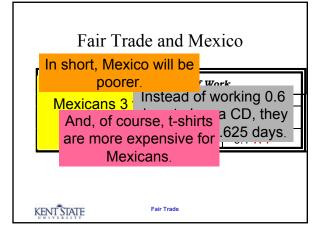
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### Fair Trade and Mexico

CDs used to locate of working 0.6
Mexicans 3 Instead of working 0.6
And, of course, t-shirts are more expensive for Mexicans.

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# 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.



Fair Trade

#### 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.

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## The Tentative Link

- Fair This is tentative at best. Ide.
- Redu of Ec This would not be the first time that a policy designed
- A low with one thing in mind to a lag (helping poor nations) ends
- A low up with the opposite effect. ds to a lower level of democracy.



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#### Effects on Americans

Output Per Day of Work						
	T-shirts	Music CDs	Relative Cost			
United	20	10	2:1			
States						
Mexico	54	1	<sub>5:1</sub> 4:1			

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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.

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# 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.

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# Supporters of fair trade

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

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#### End

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