8 Global Justice and Trade

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1. INTRODUCTION

Virtually everyone agrees that world poverty is a major scourge and that alleviating it should be a priority of international law and national policies of developed and developing nations alike.[1] People disagree, however, about the best way to do this; in particular, they disagree about the role of trade in combatting poverty. In this chapter we claim that free trade is *required* by justice. Protectionist laws are indefensible on two grounds. First, they are indefensible in *principle* because they coercively redistribute resources in favor of persons who are not deserving beneficiaries under any plausible theory of domestic or international justice. Second, protectionist laws have objectionable *consequences* because they undermine economic growth and, in doing so, harm persons generally – in particular, the poor. In presenting our argument, we criticize recommendations from the philosophical literature on global justice. We conclude that those recommendations are deficient precisely because they

[1] For a general survey of the magnitude of the problem, see World Commission on the Social Dimension of Globalization, "A Fair Globalization: Creating Opportunities for All" (International Labour Organization, 2004; available at http://www.ilo.org/public/english/standards/relm/ilc/ilc92/pdf/adhoc.pdf; accessed on February 27, 2007).

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overlook the role of trade in alleviating poverty – a role underscored, with little dissent, by reliable economic research.[2]

Philosophers overlook and even sometimes reject the crucial finding that, generally, free trade *helps* the poor. Because free movement of goods, services, and persons will likely reduce world poverty, any theory of global justice should encourage and promote the establishment of free trade and the reduction of barriers to immigration. However, none of the major scholars on global justice or human rights, that is, those *concerned with poverty*, recommend unrestricted trade,[3] and some of them even claim that free trade *hurts* the world's poor.[4] Instead, these scholars typically propose various global redistributive schemes comprising universal aid and including, in some versions, a global regulatory agency that would transfer resources collected through universal taxation from the rich to the poor. They also recommend global regulatory standards (on labor, health, and the environment) restrictive of trade.[5]

Unfortunately, this neglect is not just a scholarly failure. The antiglobalization movement leads a worldwide struggle against free trade partly in the name of protecting the poor.[6] This academic and political hostility to free trade aggravates, we think, the harm that protectionism, and the rent-seeking activities that almost invariably accompany it, inflict on the world's most vulnerable population.[7]

[2] We also believe that liberalizing immigration would likely have similar beneficial effect on poverty, but a full defense of that claim requires a separate article.

[3] Surprisingly, the United Nations General Assembly, not known for its sympathies to economic or political liberalism, has taken a better view of the issue. See U.N. Millennium Project, "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, Overview" (United Nations Development Programme, 2005), xiii (available at http://www.unmilleniumproject.org/documents/overviewEngi-1LowRes.pdf), proposing to fight poverty by, *inter alia*, "[d]evelop[ing] further an *open* rule-based, predictable, nondiscriminatory trading and financial system ([which] includes a commitment to good governance, development and poverty reduction – nationally and internationally)" (emphasis added; last accessed on February 12, 2007).

[4] See infra, Section VI.

[5] For a defense of the WTO's pro-trade functions and a criticism of proposals to establish a global regulatory agency, see John O. McGinnis and Mark L. Movsesian, "The World Trade Constitution," *Harvard Law Review* 114 (2000): 511.

[6] See, e.g., Jerry Mander, Debi Baker, and David Korten, *Does Globalization Help the Poor?* (San Francisco, CA: International Forum on Globalization, 2001) (available at http://www.thirdworldtraveler.com/Globalization/DoesGlobalizHelpPoor.html; last accessed on April 26, 2006). For cogent answers, see Jay Mandle, *Globalization and The Poor* (Cambridge: Cambridge University Press, 2003), 100, 121–132 (explaining the economic misconceptions underlying much of the antiglobalization movement), and Jagdish Bhagwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004), 51–72 (claiming that globalization helps the poor). See also the discussion infra, Section IV, point 1.

[7] We do not discuss international trade lawyers here. Although, in general, their views tend to be more sympathetic to free trade, they do not entirely do justice to the economic literature. For

Our argument is in several parts. We first define the problem as the need to improve the situation of the world's poor as a class. We then review the *status quaestionis* on the effects of trade liberalization on growth, especially on the poor, as it stands in mainstream international economics. Joining a nearly unanimous literature, we conclude that trade liberalization creates global and national growth and generally helps the world's poor. For this reason, any philosophical proposal concerned with the poor should embrace a global system designed to eliminate the barriers to trade, and in particular to curb the influence of concentrated interest groups that benefit from protectionism, and in so doing harm the poor.[8] The exceptions to this general proposition rely on very specific factual assumptions that are unlikely to obtain in the real world of national trade policy. It is fair to say, then, that the condition of the world's poor would most likely improve if governments would allow them fully to participate in the global market as producers and consumers. We show how philosophers approach the question of poverty. Because they neglect economic theory, these scholars misdiagnose world poverty and recommend ineffectual, insufficient, or counterproductive solutions. Finally, we respond to two arguments against free trade: the stolen-goods argument and the pauper-labor argument.

II. DEFINING THE PROBLEM: POVERTY, EQUALITY, AND EFFICIENCY

We must carefully define the problem we are addressing. This chapter is concerned with the predicament of the world's poor. We take as the proper object of moral concern a group defined in some quantifiable way as those who have the lowest real income per capita, across nations.[9] This approach has several corollaries. First, we are not addressing the problem of economic

example, a leading trade legal scholar, John J. Jackson, cautions against embracing unrestrained trade because he thinks that states may legitimately pursue "non-economic" policies. See John J. Jackson, *The World Trading System: Law and Policy of International Economic Relations* (Cambridge, MA: MIT Press, 1997), 18–25. In this chapter, however, we assume that any trade policy *should* enhance the welfare of the poor. Whether in Jackson's term this goal is economic or noneconomic is a semantic choice.

[8] See McGinnis and Movsesian, "The World Trade Constitution," supra note 5.

[9] We bypass the difficult issue of how to measure poverty and, consequently, how to count the poor. We assume, however, that this can be done accurately and impartially. For contrasting views, see "World Bank Development Report 2000/1," 2001 (available at http://www.worldbank.org/wdr/2000/fullreport.html; last accessed April 26, 2006); and Sanjay G. Reddy and Thomas W. Pogge, "How *Not* to Count the Poor," April 21, 2003 (available at http://www.socialanalysis.org; last accessed April 26, 2006).

inequality per se.[10] Many people think that inequality is a serious problem, but it is not the subject of this chapter. We assume either that there is no injustice in disproportionate gains by rich countries or persons if the result is to lift the world's poor from their current predicament,[11] or that if inequality is an injustice, reducing it is a less urgent priority than alleviating poverty in absolute terms. This proviso is important, because it is often the case that a discussion about the effects of trade shifts imperceptibly from the question of whether trade helps the poor to the question of whether trade increases or reduces inequality.[12] Although alleviating world poverty has the potential to reduce inequality, our defense of free trade here does not assume this. We do not take a stance on whether trade reduces or accentuates inequality. Because world poverty is an especially urgent problem, we assume instead that the proper moral concern is to help the world's poor, and we argue that free trade will do this, whatever the effects are on the gap between rich and poor countries, groups, or individuals. Furthermore, precisely because world poverty is so awful, the view that reducing inequality should have moral *priority* over helping the poor in absolute terms is implausible.

Second, this article takes as the proper object of moral concern the world's poor *as a class*. This concept requires elaboration. Philosophers' distrust of free markets stems in great part from their rejection of (utilitarian or Paretian) efficiency as a goal of political arrangements.[13] The argument against utilitarian efficiency is well known: Efficient economic arrangements are indifferent to distribution along the efficiency frontier, so if free trade increases wealth and is thus efficient in this sense but worsens the lot of the poor, then it is morally unacceptable. This is captured by the common wisdom in political philosophy that political and economic arrangements should be attentive to distributional

[10] We assume that any defensible system of international ethics must include a principle of *moral* equality, such as that every person in the globe deserves to be treated with equal concern and respect. See generally Fernando R. Tesón, *A Philosophy of International Law* (Boulder, CO: Westview Press, 1998; defending a Kantian theory of international law). In what follows, the term "inequality" denotes inequality of income or resources.

[11] Here we draw on John Rawls's famous assertion that "there is no injustice in greater benefits earned by a few provided that the situation of persons not so fortunate is thereby improved." John Rawls, *A Theory of Justice*, 2nd ed. (Cambridge, MA: Harvard University Press, 1999), 13.

[12] See, e.g., George F. De Martino, *Global Economy, Global Justice: Theoretical Objections and Policy Alternatives to Neoliberalism* (London: Routledge, 2000), 10–11 (objecting to "neoliberalism" because of its lack of commitment to equality).

[13] For a discussion of the normative objections to standard notions of efficiency, see Daniel M. Hausman and Michael S. McPherson, *Economic Analysis and Moral Philosophy* (Cambridge: Cambridge University Press, 1996), 84–100.

issues.[14] At first sight, Pareto efficiency fares better from the standpoint of the poor, because it forbids worsening their situation for the sake of aggregate gains. However, critics of efficiency point out that Pareto efficiency unduly forbids institutional arrangements that improve the poor at the expense of the rich. That seems unacceptable from the standpoint of a theory of justice that focuses on the poor.

We sidestep those criticisms because we provisionally agree with their normative premise. We endorse neither a standard of utilitarian efficiency nor a standard of Paretian efficiency, although we believe that, all things being equal, efficiency and economic growth are important instrumental values. Economic growth is valuable for many reasons, but for the purposes of this chapter it is valuable *because* it has a positive effect in the alleviation of poverty.

But who are the "world's poor" for the purposes of a theory of global justice? We suggest that an international economic arrangement should benefit *the poor as a class, across countries*. Every economic arrangement involves trade-offs among persons. Hence, whether free trade is desirable from a moral standpoint should be determined by whether it helps the world's poor *as a whole*, even if trade worsens the situation of *some* poor persons. If free trade has that effect, then it is no longer open to the criticisms that have been leveled against efficiency as a goal of distributive justice. A theory that recommends free trade on the grounds that it helps the poor is appropriately qualified from the distributional point of view. It focuses on improving the condition of the world's poor. It does not focus on improving each and every individual person, for the good reason that no policy, national or international, could possibly do that.[15] A philosophical objection to free trade, then, is a denial that trade helps the world's poor as a class.

To make our case, we briefly review the economic literature on trade, growth, and poverty. The survey will show that free trade not only increases global and national welfare (something that is rarely disputed) but also that given reasonably good domestic institutions, free trade has good distributional effects, that is, effects that are morally superior to the distributional effects of maintaining trade barriers. What is more, even in the *absence* of reasonably good domestic institutions, protectionism tends to compound the problem of poverty. Trade liberalization and freer immigration generally help the world's

[14] The literature is vast. For an excellent survey, see Will Kymlicka, *Contemporary Political Philosophy*, 2nd ed. (Oxford: Oxford University Press, 2002), 10–52.

[15] Thus, e.g., establishing universal health care will help many poor persons, but it may harm other poor persons by drawing from social resources to fight other manifestations of poverty, such as homelessness and hunger.

poor; protectionism anywhere (that is, in rich and poor countries alike) tends to hurt them.

A. Some Caveats

We offer four caveats to our argument in this chapter. First, we do not have a moral disagreement with those who are the targets of our critique. We assume, as they do, that persons, governments, and institutions have some duty (the basis for which we do not address here) to contribute to poverty relief. Rather, we differ on the means to discharge that duty. Philosophers think that the way to do this is to universalize foreign aid (perhaps by creating a global redistribution agency.) We, in contrast, think that the condition of the world's poor would dramatically improve if nations abolished all barriers to trade.

Second, because free trade alleviates poverty, we agree with those who have defended the role of the World Trade Organization (WTO) in enforcing the trade nondiscrimination rule that in turn has resulted in a dramatic lowering of tariffs and other trade barriers in the past fifty years or so, with the corresponding global economic growth.[16] Nevertheless, although the current WTO regime is preferable to a generalized protectionist regime, it has a number of imperfections from the standpoint of justice and efficiency. On the one hand, current arrangements allow governments to overprotect, thus hampering the chances that the poor will participate in the world economy. One problem with the WTO treaty, therefore, is that it *does not liberalize trade enough*.[17] On the other hand, although generally structured to gradually lower trade barriers, the WTO regime is partly predicated on outdated mercantilist notions: Governments seek to secure foreign markets access for exporters, thus treating access to *their* markets as a bargaining "chip."[18] Because imports benefit consumers, the notion that granting access to one's markets is a *concession* to other countries is false; lowering one's tariffs helps one's citizens.

[16] See McGinnis and Movsesian, "The World Trade Constitution," supra note 5, at 529–547.

[17] For an earlier appraisal of the protectionist features of the WTO (then the GATT), see Jagdish Bhagwati, "Protectionism," in *The Concise Encyclopedia of Economics* (1988), 9–15 (available at http://www.economlib.org; last accessed on January 2, 2007). Our criticism of the WTO, therefore, is diametrically opposed to the criticism by the antiglobalization forces: The latter blame the WTO for being too biased toward free trade, whereas we believe it does too little to advance free trade principles.

[18] See Kyle Bagwell and Robert W. Staiger, "The WTO as a Mechanism for Securing Market Access Property Rights: Implications for Global Labor and Environmental Issues," *Journal of Economic Perspectives* 15 (2001): 70. Professors Bagwell and Staiger still believe that the WTO can be defended on nonmercantilist grounds. See Kyle Bagwell and Robert W. Staiger, *The Economics of the World Trading System* (Cambridge, MA: MIT Press, 2002), 57–70.

So, although current vocal criticisms of the WTO should be rejected, the organization is suboptimal from the standpoint of global justice. The WTO is certainly inferior to more liberal alternatives, like unrestricted trade,[19] yet however bad the present system may be, protectionism is worse. Current critics of the WTO, in contrast, while criticizing protectionism in rich countries, seem to assume, usually *sub silentio*, that developing nations can help their economies by enacting protectionist measures. The institutional solution that could bring the world closer to the ideal of unrestricted trade is a WTO-like organization whose sole purpose is to ensure that nations liberalize trade. Nonetheless, excessive international regulation *restrictive* of trade, even if meant to address a market failure, may often be counterproductive with regard to the poor.[20]

Third, free trade does not necessarily mean total absence of regulation. We define "free trade" simply as the absence of barriers to trade. These barriers include, on the one hand, tariffs, quotas, and subsidies; on the other, they include government procurement, quality, sanitary, fiscal, health, environmental, and labor rules where the protectionist effect is not justified by the underlying rationale, or market failure, that these rules attempt to address. We do not object in principle to regulations that may be valid responses to genuine market failures (such as, perhaps, international regulations to curb emissions that cause global warming), although we recognize that those measures often conceal protectionist designs.

Our fourth caveat is that free trade is not a sufficient condition for growth and, consequently, not a sufficient condition for the alleviation of world poverty. Nations need, in addition to open trade, good domestic institutions.[21] More specifically, in order to grow, nations need, at the very least, well-defined property institutions and, arguably, good contract institutions. Nonetheless, we are agnostic about what *other* government programs should accompany trade liberalization.

For example, consider the issue of how to address the situation of workers hurt by trade liberalization. Liberal egalitarians support government retraining programs to help those who suffer from trade liberalization.[22] Libertarians, in

[19] *See* Amartya Sen, "How to Judge Globalism," *The American Prospect* 2 (2002): A2–A6 ("Global interchange is good; but the present set of global rules needlessly hurts the poor").

[20] See McGinnis and Movsesian, "The World Trade Constitution," supra note 5.

[21] See the discussion in the paragraphs that follow.

[22] For example, Amartya Sen has recommended various forms of government intervention to help workers hurt by trade, but he (like many others) explicitly warns that protectionism is a bad remedy. See Amartya Sen, *Development as Freedom* (Oxford: Oxford University Press, 2000), 121 (calling protectionist measures, in contrast to nonprotectionist government intervention in

contrast, suggest that the costs of trade readjustment should be borne by workers and producers of the inefficient, formerly protected industries.[23]

Our argument is consistent with either view. It simply rests on the proposition that *whatever else* government can or should do to aid the poor or help those hurt by trade liberalization, enacting protectionist laws is a bad remedy. Free traders do not simply claim that the benefits of capitalism will "trickle down" to the poor. Rather, they accept that, depending on the circumstances, free trade may be consistent with some role of government both in stimulating growth and making public expenditures, on social programs and similar schemes, to alleviate the plight of the poor – as long as these measures do not impair private property rights to a degree incompatible with growth. This is very important, because if the argument in this chapter is right, then free trade *should be supported by defenders of the welfare state (as long as they support property rights) and of laissez-faire economics alike*. An important corollary of our argument is that protectionist laws are indefensible, not just under a classical-liberal view of politics, but under *any* plausible moral-political theory.

III. THE ECONOMICS OF TRADE AND POVERTY ALLEVIATION

A. Trade, Growth, and Poverty

It is not possible to work responsibly on global justice without knowing how international markets work and what effects trade has on different social groups, especially on the poor. Plainly, before proposing ways to alleviate world poverty, we must get our social theories and facts right. Thus, we briefly examine what international economists have to say about the effects of trade liberalization on growth and poverty. The literature has a theoretical and an empirical component, which we summarize in turn in the paragraphs that follow.

Modern economic models of international trade generally fall into three categories: (1) the law of comparative advantage, which in turn has two versions, the original Ricardian version and the Heckscher–Olin version; (2) the model

markets, "precapitalist"). In the United States, the training of workers hurt by trade is federally subsidized. See Trade Adjustment Assistance Reform Act, 19 U.S.C.S. § 2401 et seq. (2002).

[23] A classic locus for this position is Gary S. Becker, "Investment in Human Capital: A Theoretical Analysis," *Journal of Political Economics* 70 (1962): 9. For a reply, see R. S. Eckaus, "Investment in Human Capital: A Comment," *Journal of Political Economics* 71 (1963): 501–504. For a more recent survey of the literature, see Mark A. Loewenstein and James R. Spletzer, "Dividing the Costs and Returns to General Training," *Journal of Labor Economics* 16 (1998): 142–171.

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based on increasing returns; and (3) the endogenous growth model. The first two models broadly support the view that liberalized trade is good for general economic growth, as well as creating benefits for the poor in particular. The endogenous growth model includes a version of the infant-industry argument and constitutes the strongest theoretical case for (sometimes) supporting trade barriers in the name of helping the poor. For reasons of space, we will limit our discussion to the first and third categories: the comparative advantage model (favorable to free trade) and the endogenous growth model (permissive of some trade restrictions).

B. Comparative Advantage

David Ricardo formalized the idea that nations trade because technological differences lead each to specialize in the production of the good in which it has a comparative advantage.[24] In a model of two countries and two goods, Ricardo demonstrates that even if a country can produce one of the goods more cheaply than the other country, it still may import that good if doing so frees up its resources to produce a good in which its trading partner has an even greater cost disadvantage.[25] Extensions of the Ricardian model increase the

[24] David Ricardo, *On the Principles of Political Economy and Taxation*, 3rd ed., § 7.15 (1821; available at http://www.econlib.org/library/Ricardo/ricP.html).

[25] Country 1 has a comparative advantage in the production of Good A relative to Country 2 if its opportunity cost of producing Good A (i.e., how many units of Good B it can no longer produce if it produces an additional unit of Good A for a given stock of resources) is lower than Country 2's opportunity cost of producing Good A. Or, more succinctly, Country 1's marginal rate of transformation between Good A and Good B is lower than that of Country 2. Ricardo offers an example in which England and Portugal both produce wine and cloth. If it takes 100 English workers one year to produce quantity x of cloth and 120 English workers one year to produce quantity y of wine, and it takes 90 Portuguese workers to produce x units of cloth and 80 Portuguese workers to produce y units of wine in the same time period, then Ricardo claims that Portugal will import its cloth from England and export wine to the country. To see this, if Portugal allocates its 90 cloth workers to wine making, in principle, it can ship units of wine to England. In turn, England can now allocate its wine workers to cloth production, sending units of cloth in return to Portugal. After this trade, employing the same total amount of workers as before, Portugal has 20 percent more cloth than it previously produced (and the same amount of wine), and England has 12.5 percent more wine than it previously produced (and the same amount of cloth).

While the exact split of the surplus generated by the trade will differ depending on the relative demands for wine and cloth in the two countries, in Ricardo's example both countries have the potential to expand their consumption of both goods without using more resources. Joint consumption of both goods across the two countries is guaranteed to rise even though Portugal can produce both goods more cheaply than England can. That is, economic growth occurs even if Portugal has an absolute advantage in the production of both goods. Earlier, Adam Smith number of countries, increase the number of goods traded,[26] and include transportation costs and tariffs.[27] In general, for all of these extensions, the theory's predictions are robust: Trade continues to increase welfare among the trading partners in the way we already observed.

Whereas the Ricardian model relies on differing technology to ground the concept of comparative advantage, the Heckscher–Ohlin model relies on differential factor abundance to generate trade among countries. In the simplest form of the model, two factors of production are assumed (labor and capital) to be used in the production of two different goods. One of the goods is assumed to be capital intensive and the other is assumed to be labor intensive, meaning that the marginal product of capital for Good A exceeds the marginal product of capital for Good B, while the marginal product of labor for Good B exceeds the marginal product of labor for Good A. Production functions are identical across countries, but one of the countries has a relative abundance of labor while the other has a relative abundance of capital.[28]

Before trade takes place (i.e., in a state of autarky), the domestic price of the capital-intensive good will be lower in the country with an abundance of capital. Because the Heckscher–Ohlin model assumes perfect competition, the price of the capital-intensive good will be competed down because of its relatively large supply owing to the abundance of capital in the country. The same will be true of the domestic price of the labor-intensive good in the labor-abundant country. When trade is opened up, the capital-abundant country will be induced to export the capital-intensive good by the relatively high price of the good in the labor-abundant country and vice versa.

In welfare terms, trade in the Ricardian model is Pareto efficient at the microlevel. That is, all individuals in the trading countries are left no worse off after moving from autarky to trade (and many are made better off). The movement to free trade in the Heckscher–Ohlin model, however, is merely

had argued the case for free trade when a nation has the opportunity to trade with a country exhibiting an absolute advantage in desired goods. In terms of modern microeconomic tools, by specializing in the good in which its comparative advantage lies, trade effectively allows both countries to shift their production possibility frontiers outward.

[26] In fact, the Ricardian model is extended to encompass a continuum of goods in R. Dornbusch et al., "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review* 67 (1977): 823.

[27] For a formal presentation of all of these extensions, see Jagdish Bhagwati, Arvind Panagariya, and T. N. Srinivasani, *Lectures on International Trade* (Cambridge, MA: MIT Press, 1998), chapter 4.

[28] Robert Feenstra, *Advanced International Trade: Theory and Evidence* (Princeton, NJ: Princeton University Press, 2004), 32.

Kaldor–Hicks efficient at the microlevel. That is, although some individuals are left worse off after the change, the gains to the winners are large enough to offset the losses experienced by the owners of the relatively scarce factor of production. Whether the relevant compensation ever takes place is determined outside the trade model.[29]

Both comparative advantage models (Ricardian or Heckscher–Olin) imply an aggregate gain from trade liberalization. In the more refined versions there are important distributional consequences. Given the aggregate gains, however, if a country has well-functioning institutions, everyone could be made better off as a result of trade through redistribution. Obviously, throughout the developing world, the assumption of well-functioning institutions is not trivial. Nevertheless, in the absence of redistributive institutions, many of the refined models actually imply that the poor are the most likely to benefit from trade. As implied by the Stolper–Samuelson theorem, because the poor are most likely to be the owners of the abundant resource in developing countries (i.e., labor), liberalizing trade will increase the return to the poor in those countries.

C. Endogenous Comparative Advantage

Although most supporters of the endogenous growth models do not dispute that free trade is likely to improve growth and welfare,[30] they are concerned that trade, under some circumstances, could effectively displace growth-enhancing research and development. That is, if comparative advantage induces a country to specialize in a low-technology industry, there may be fewer technological spillovers emanating from the research that would have been carried out in the country had it not specialized. This view was first formalized by Paul Krugman.[31] Others have challenged this view, however, by observing that

[29] This criticism of the Kaldor–Hicks efficiency criterion has been advanced virtually since the criterion was developed in Nicholas Kaldor, "Welfare Propositions of Economics and Interpersonal Comparisons of Utility," *Economics Journal* 49 (1939): 549, and J. R. Hicks, "The Foundations of Welfare Economics," *Economics Journal* 49 (1939): 696. See, e.g., William Baumol, "Community Indifference," *Review of Economic Studies* 14 (1946): 44, 45. For trade to benefit the poor, however, a country needs to have reasonably good domestic institutions; see the discussion in the paragraphs that follow.

[30] See Philippe Aghion and Peter Howitt, *Endogenous Growth Theory* (Cambridge, MA: MIT Press, 1998), 392.

[31] Paul Krugman, "The Narrow-Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher: Notes on Trade in the Presence of Dynamic Scale Economies," *Journal of Development Economics* 27 (1987): 41.

increased scale occasioned by *trade* can generate increased opportunities for research and development as well as for learning by doing, and these cumulative effects could be very large over time.[32]

Much of the work in this area relies heavily on specific assumptions regarding the patterns of specialization. For example, Ben-David and Loewy offer an open-economy endogenous growth model with knowledge accumulation that builds from the standard neoclassical growth model.[33] In their model, knowledge accumulation is determined by the extent of trade among countries. Even if a country liberalizes trade unilaterally, all countries subsequently improve their steady state (that is, their dynamic equilibrium path or the stable rate of economic growth). Moreover, the growth is most pronounced in the liberalizing country[34] (an insight that contradicts the folk belief, inexplicably adopted by much of the global justice literature,[35] that the country that liberalizes unilaterally is the "sucker" in the international trade game).

However, under different assumptions concerning the form and extent of knowledge accumulation, the predictions of the endogenous growth theory about the effect of trade liberalization can be reversed. For example, the long tradition of the infant-industry rationale for protectionism stems from the idea that in developing countries protected industries will improve in productivity over time, eventually becoming competitive on the world market. If the long-term improvement in growth yielded by developing a comparative advantage in the previously protected industries is large enough, it could justify the short-run loss in efficiency generated by forsaking free trade.[36]

Although at a broad level these arguments are theoretically plausible, implementing an infant-industry policy presents numerous obstacles. First, it requires planners to be able to predict which industries will in fact generate large long-term gains, without falling victim to the special interests engaged in rent seeking. Further, there is some question whether firms within the protected industries will have an incentive to improve their productivity. Lastly, protected industries may not be able to develop the scale necessary to

[32] Luis Rivera-Batiz and Paul Romer, "Economic Integration and Endogenous Growth," *Quarterly Journal of Economics* 106 (1991): 531–556.

[33] Dan Ben-David and Michael Loewy, "Knowledge Dissemination, Capital Accumulation, Trade, and Endogenous Growth," *Oxford Economic Papers* 52 (2000): 637.

[34] Ibid. at 646.

[35] See, e.g., Thomas Pogge's views in the paragraphs that follow.

[36] See, e.g., Murray Kemp, "The Mill-Bastable Infant-Industry Dogma," *Journal of Political Economics* 68 (1960): 65.

maximize productivity.[37] Beyond those purely economic concerns, there is significant tension in trading off current costs (that is, forgone current benefits of trade) with uncertain future benefits (that is, the potential for achieving a higher long-run growth rate by developing a different comparative advantage). Perhaps as a result of these problems, or perhaps as a result of uncertainty regarding the ways in which knowledge accumulation is affected by trade and protectionism, the empirical evidence on the growth effects of infant-industry protection is mixed.[38] Rather than reviewing the huge theoretical literature on infant-industry models of economic growth, we will focus on a specific innovative model in this tradition. Greenwald and Stiglitz offer a so-called infant-economy rationale for protection in which they develop a simple model of an economy with two sectors: industrial (or modern) and agricultural (or traditional).[39] Their model hinges on four assumptions: (1) the industrial sector generates positive externalities for the agricultural sector in the form of knowledge spillovers; (2) knowledge spillovers are limited geographically such that Country A's agricultural sector cannot learn from Country B's industrial innovations; (3) industrial sector innovations have a larger relative effect on industrial productivity; and (4) innovations and their spillover effect are a function of the scale of the industrial market.

Under these conditions, the free-trade equilibrium will involve developing countries specializing in the traditional sector. Because there is no innovation in the traditional sector, developing economies stagnate and fall increasingly behind the developed world in economic growth rates, given the innovation that occurs in the industrial sectors of the developed world. To avoid this undesirable equilibrium, Greenwald and Stiglitz suggest that developing countries can use protectionist measures, such as bans or significant tariffs on industrial inputs. Under such policies, the developing countries would no longer specialize in the traditional sector, generating knowledge spillovers that lead to a higher-growth equilibrium in the long run. The authors concede that these policies generate costs in the short term.

From this model, Greenwald and Stiglitz suggest that developing countries should adopt broad-based industrial tariffs rather than trying to identify the

[37] *See* Mitsuhiro Kaneda, "Policy Designs in a Dynamic Model of Infant Industry Protection," *Journal of Development Economics* 72 (2003): 91, 115 at note 4.

[38] See Dani Rodrik, "Trade and Industrial Policy Reform," in Hollis Chenery and T. N. Srinivasan (eds.), *Handbook of Development Economics*, Vol. 3 (New York: North-Holland, 1995), 2925–2982.

[39] Bruce Greenwald and Joseph E. Stiglitz, "Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries" (Columbia University Working Paper No. d, 2006; available at http://www2.gsb.columbia.edu/faculty/jstiglitz/download/Helping_Infant_Economies_Grow.pdf; last accessed on March 7, 2006).

infant industry that will eventually prove to be the "best" sector in which to develop a comparative advantage. They argue that this broad-based policy both avoids the uncertainty problems involved with picking the right industry and does not involve the creation of narrow special interests. In support of the welfare conclusions and policy prescriptions of the model, Greenwald and Stiglitz point to the success of such broad-based industrial tariffs in generating later growth for the European Economic Community, as well as many of the Asian economies. They even argue that this policy of high, uniform industrial import tariffs characterizes the early history of the United States.

As mentioned before, this model's implications change significantly if the underlying assumptions are changed. At the very least, the trade-off between current losses caused by restricted trade and higher future growth rates becomes increasingly unattractive for infant-economy protection as the assumptions are changed. If innovations are not country specific (that is, if developing countries can learn from innovations in developed countries) and trade facilitates communication between developing and developed countries, then the import tariffs could retard long-run growth. Further, if innovations can occur in the traditional sector, the case for industrial import tariffs is weakened.

Greenwald and Stiglitz argue that their assumptions are reflective of reality because industrial production is more likely to generate innovations given the larger scale and increased stability observed in the industrial sector. Further, they argue that innovations do tend to be area specific, limiting the ability of developing countries to learn from foreign innovations.[40]

However, others challenge these claims. Perhaps most important, Coe and Helpman present a model in which a country's productivity is influenced by the knowledge accumulated by its trading partners.[41] That is, in the language of the Greenwald and Stiglitz model, knowledge spillovers are *not* limited geographically. Country A can benefit (learn) from the innovations created in Country B as long as there are trade linkages between A and B. Coe and Helpman present results that indicate a country's productivity is positively associated with foreign research and development, and the effect is larger when a country is more open to foreign trade.[42] The Coe and Helpman

[40] Ibid. at 10–11.
[41] David T. Coe and Elhanan Helpman, "International R&D Spillovers," *European Economic Review* 39 (1995): 859.
[42] Ibid. at 875.

empirical results have been the subject of some debate,[43] but they at least cast some doubt over the infant-economy model.

As indicated by this limited review of dynamic comparative advantage or endogenous growth models of trade, their results are driven by fairly specific assumptions about the ways innovations occur in an economy. Assuming that long-run growth and welfare are desirable, the wisdom of trade restrictions will depend on the relative importance of domestic vis-à-vis international innovations. If countries can learn a substantial amount from outside innovations, trade restrictions will hamper domestic productivity. If however, domestic innovations are significantly more important and those innovations primarily occur in sectors outside of a country's initial comparative advantage, trade will reduce long-term growth.

However, under almost any plausible set of assumptions, short-term economic performance is harmed by trade restrictions. About this, essentially none of the theorists disagrees. The relevant policy decision then involves trading off short-term losses (caused by forgone trade) against predicted future improvements (from having a "better" comparative advantage as a result of nurtured innovations) based on assumptions that are subject to dispute.

The upshot of the foregoing analysis is that under some of the trade models, everyone who owns a factor of production (capital, land, or labor) benefits from open trade; and, under the more complex (although not necessarily more

[43] See, e.g., Chihwa Kao, Min-Hsien Chiang, and Bangtian Chen, "International R&D Spillovers: An Application of Estimation and Inference in Panel Cointegration," *Oxford Bulletin of Economics and Statistics* 61 (1999): 691 (suggesting that more general models do not support the inference that foreign R&D improves domestic productivity, but these models do support the Greenwald and Stiglitz assumption that domestic R&D does improve domestic productivity generally); Chris Edmond, "Some Panel Cointegration Models of International R&D Spillovers," *Journal of Macroeconomics* 23 (2001): 241 (presenting evidence suggesting that the Coe and Helpman results are not robust to different specifications); Wolfgang Keller, "Are International R&D Spillovers Trade-Related? Analyzing Spillovers among Randomly Matched Trade Partners," *European Economic Review* 42 (1998): 1469 (presenting Monte Carlo results that suggest that if international R&D improves domestic productivity, trade openness might not be a necessary condition to benefit from international spillovers). However, a number of subsequent studies have also found support for Coe and Helpman's model. See, e.g., Frank Lichtenberg and Bruno van Pottelsberghe de la Potterie, "International R&D Spillovers: A Comment," *European Economic Review* 42 (1998): 1483 (reanalyzing Coe and Helpman's econometric model correcting for various biases, and finding support for the idea that trade openness determines whether or not a country benefits from international innovations); Tamim Bayoumi, David T. Coe, and Elhanan Helpman, "R&D Spillovers and Global Growth," *Journal of International Economics* 47 (1999): 399 (providing evidence from simulation exercises supporting the Coe and Helpman model); Gwanghoon Lee, "International R&D Spillovers Revisited," *Open Economic Review* 16 (2005): 249 (supporting the Coe and Helpman model by using more sophisticated panel data techniques that allow for cointegration).

accurate) models, such as the Heckscher–Ohlin framework, the owners of the more abundant factor, which for developing countries will be labor (owned primarily by the poor), will benefit from liberalized trade. Even under the models that are less favorable to trade liberalization (that is, the endogenous comparative advantage models), it is generally recognized that trade liberalization will improve current economic conditions, whereas protectionists policies have the potential to improve conditions at some undetermined point in the future if some fairly restrictive assumptions hold and policy makers make the right decisions about which industries to protect.

Generally speaking, most economists accept that trade is beneficial for development, even if they do not view it as a panacea for countries with bad institutions. If economists do deviate from support for free trade, their reasons are more complex and narrow in scope than the protectionist arguments given by politicians and scholars who are not economists.

Under the models discussed here, when trade opens between nations, in all practical situations joint gains occur and no country loses. In most situations, the gains of trade are split, so each of them gains. Therefore, not only does trade enhance aggregate wealth (that is, the wealth of both nations added together) but, in virtually every case, it also enhances the national wealth of each nation. This improvement occurs because the resources in each country are used more efficiently. Long-run effects may be different in the endogenous comparative advantage models, but even in these models restraints on trade generate short-term losses. Moreover, under those models long-term gains from the restraints are highly uncertain and depend on a high degree of foresight and predictive ability on the part of government actors. In particular, those models overlook the potential susceptibility of such actors to rent-seeking activities on the part of those industries seeking protection.[44]

The prediction that trade is a positive-sum game when nations are considered as units is of great importance, because it contradicts the claim that the country that protects helps itself and hurts only or mainly its trade partner who (perhaps foolishly) liberalizes trade. This claim is commonly advanced by scholars not trained in economics, and it is based on a serious economic mistake: that exports are good and imports are bad. The view is the centerpiece of mercantilism.[45] Mercantilism views trade as a zero-sum game: One country's gains come at the expense of other countries. It rests on the false

[44] Note that when this point was formalized in Gene Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 84 (1994): 833–850, they characterized their rent-seeking model as a new way to look at trade policy (ibid. at 848).

[45] Mercantilism was refuted more than 200 years ago. See generally Adam Smith, *The Wealth of Nations* (1776) and David Ricardo, supra note 24.

assumption that a surplus in international trade must be a deficit for other countries.[46] Mercantilists claim that exports, believed to benefit domestic producers, should be encouraged, whereas imports, believed to hurt domestic producers, should be discouraged.[47] However, national well-being is based on present and future increased consumption. Exports are valuable only indirectly; they provide the income to buy products to consume.[48] This insight is central to an assessment of the effects of trade on the poor: Independent of whether the poor are able to export (that is, independently of whether or not foreign markets are open to the goods they produce), the poor *benefit from having a wider variety of available imported goods to consume*, either because the product was not available domestically or because trade lowers the price of the product, bringing it within the reach of the poor.

So far, the theoretical prediction is that freer trade causes global and national growth in *aggregate terms*. Nevertheless, nations must be disaggregated to find out who wins and who loses with open trade. Critics of free trade have long argued that the beneficial aggregate effect of trade is consistent with the bad effect of leaving the poor out, because it is possible that the gains of trade fall on the rich or the middle class of both trading partners.[49] In this view, when we take *persons or families* as units, free trade may well lead to losses for the poor.[50]

It is true that *if* open trade would hurt the poor and protectionist policies would be necessary to alleviate poverty, then free trade would be objectionable

[46] See Thomas A. Pugel and Peter H. Lindert, *International Economics*, 11th ed. (New York: McGraw-Hill, 2000), 33.

[47] Ibid.

[48] Thus, "imports are part of the expanding national consumption that a nation seeks, not an evil to be suppressed." Ibid. Equally problematic is the claim that imports reduce domestic employment. See Laura LaHayes, "Mercantilism," *Concise Encyclopedia of Economics* (available at http://www.econlib.org; accessed on February 8, 2007).

[49] This is what critics of globalization mean by the cliché that "trade helps big business." Even philosophers of the stature of John Rawls echo such sentiments. Here Rawls refers to the European Union:

> The large open market including all of Europe is the aim of the large banks and the capitalist business class whose main goal is simply larger profit. The idea of economic growth, onwards and upwards, with no specific end in sight, fits this class perfectly. If they speak about distribution, it is [al]most always in terms of trickle down. The long-term result of this – which we already have in the United States – is a civil society awash in a meaningless consumerism of some kind.
>
> Letter of John Rawls to Philippe van Parijs, June 23, 1998, published in "Autour de Rawls," *Revue de Philosophie Economique* vol. 7 (2003): 7–20.

[50] John Rawls and Phillipe van Parijs, "Three Letters on The Law of Peoples and the European Union," *Revue de Philosophie Économique* 8 (2003): 7, 9. Phillipe van Parijs calls this passage Rawls's "most explicitly 'anti-capitalist' text."

and protectionism would be desirable. However, the factual premise of the argument – that open trade hurts the poor – is supported neither by the theory nor by the evidence.[51] A scientific analysis of the effect of trade on poverty centers on a simple two-step argument: Trade enhances growth, and growth reduces poverty.[52] Even if openness to trade *at first blush* does not help the poor, why assume that the poor will end up worse than before? When a country grows, two things happen. First, more industries are created, more jobs are available, and so the opportunities for the poor expand. Second, when a country grows, so do government resources that can be used to alleviate poverty. Indeed, this is the assumption that lawyers make when they condition the obligation of governments to implement social and economic rights to the country's resources.[53] The assumption is that the more resources a country has, the more resources the government will have. In turn, the more resources the government will have, the more effectively it will address the country's poverty. So whether a country's economic policies are laissez-faire or redistributive policies, the poor will benefit from access to global markets as a producer and as a consumer.

D. The Importance of Institutions

There is a growing consensus that domestic institutions themselves have important effects on economic growth. Trade models generally do not consider the importance of institutions in channeling the gains from trade into actual welfare improvements for a country's residents. But if, for example, people in a country *do not* own a factor of production (such as slaves who do not own

[51] See, inter alia, L. Alan Winters, "Trade and Poverty: Is There a Connection?" (2000; available at http://www.wto.org/English/news_e/pres00_e/pov3_e.pdf); T. N. Srinivasan and Jessica S. Wallack, "Globalization, Growth, and the Poor," *Journal of Economic Literature* 152 (2004): 251; David Dollar and Aart Kraay, "Growth Is Good for the Poor" (World Bank Policy Research Working Paper No. 2587, 2001; arguing that as economies grow, the income going to the bottom quintile of the population rises proportionately). Because one source of growth is expanded trade, trade is likely to lead to income growth among the poor.

[52] The evidence for this proposition is overwhelming. For a nontechnical account, see Jagdish N. Bhagwati, *Globalization*, supra note 6, at 51–67. For a more rigorous analysis, see Neil McCulloch et al., *Trade Liberalization and Poverty: A Handbook* (Washington, D.C.: Centre for Economic Policy Research, 2001), and Jagdish Bhagwati and T. N. Srinivasan, "Trade and Poverty in the Poor Countries," *American Economic Review* 92 (2002): 180. As these authors show, the arguments that free trade helps the poor are static (freer trade should help in the reduction of poverty in the poor countries that use their comparative advantages to export labor-intensive goods), and dynamic (trade promotes growth and growth reduces poverty).

[53] See, e.g., International Covenant on Economic, Social, and Cultural Rights, opened for signature December 16, 1966, Art. 2, 993 U.N.T.S. 3 (entered into force January 3, 1976).

their own labor), then they will not benefit from trade. By the same token, if a country's fiscal or regulatory policies (such as confiscatory taxes or rigid labor laws) prevent the owners of factors of production from selling it in the global market, then those affected by these policies will not benefit from trade. This shows how crucial it is to control for government failure and institutional quality when evaluating the welfare effects of trade.[54]

Modern scholarship on the importance of economic institutions for long-run economic performance is largely associated with Douglass North, although the importance of institutions has been recognized least since Adam Smith. Although North's early work stressed that institutions would evolve efficiently, leading to economic growth,[55] his later work moves away from this efficiency explanation for institutional change and instead argues that institutions are adopted by self-interested rulers and that there is no reason to believe that such institutions would be efficient or lead to maximum economic growth.[56] Building on this theory, North argues that inefficient institutions that are adopted in the interest of the ruler or ruling elite may result in path dependence in economic and institutional development that generates effects that outlive the ruler's tenure.[57]

Later research complements North's emphasis on the importance of studying institutions. De Soto argues that economic development in poor countries is hindered by excessive regulation and bureaucracy that raises transactions costs so high that it prevents entrepreneurial activities, leading to stagnation.[58] He also argues that poor countries lack the foundations of market economies, including a clear system of property rights, such as the systems that rich

[54] For example, recent work suggests that when institutions are appropriately controlled for, trade openness is not directly important for economic development; however, trade openness does increase the likelihood that development-friendly institutions will be adopted. See Dani Rodrik et al., "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development," *Journal of Economic Growth* 9 (2004): 131. Thus, trade might have an important "externality" not accounted for in the trade models, namely increasing demand for "good" institutions; see ibid. In a different paper, the relative effects of trade and institutions are reversed, with both mattering quite a bit for long-term growth but trade mattering more in the short run. See David Dollar and Aart Kraay, "Institutions, Trade, and Growth," *Journal of Monetary Economics* 50 (2003): 133. Both sets of results suggest that the short- and long-term effects of trade on development are affected by, and likely affect, institutions.

[55] See, e.g., Douglass C. North and Robert Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973).

[56] See, e.g., Douglass C. North, *Structure and Change in Economic History* (New York: Norton, 1981).

[57] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

[58] Hernando De Soto, *The Other Path: The Invisible Revolution in the Third World* (New York: HarperCollins, 1989).

countries developed in the nineteenth century. The absence of such clear institutional underpinnings prevents individuals in poor countries from exploiting their informal, or extralegal, property holdings, limiting economic growth in general and the condition of the poor in particular.[59]

More recently, economists have begun efforts to examine the effects of institutions on growth empirically. Acemoglu, Johnson, and Robinson investigate how preexisting conditions impact the establishment of institutions in European colonies and how institutions impact long-run growth in those former colonies.[60] Their work takes exception with the argument of Jeffrey Sachs and others who claim that immutable factors such as disease, environment, and climate directly consign some areas to poor economic performance today.[61] Instead Acemoglu et al. argue that economic institutions, such as property rights, which may have originally been influenced by natural conditions, are in fact the primary determinants of economic performance today.

Studies of the effect of institutions on growth, however, have the potential to suffer from reverse causality problems. Although many papers[62] show a strong correlation between economic freedom and growth, it is difficult to determine causality. Acemoglu et al. address this in their papers by developing new instruments for economic institutions – variables that are associated with institutions, but that cannot themselves be thought to directly impact growth, thus avoiding the problems of reverse causality. Other scholars find that institutions are a primary determinant of economic growth.[63] Even Dani Rodrik (a critic of free trade) concludes "the quality of institutions trumps everything else" when it comes to growth.[64]

[59] Hernando De Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000).

[60] Daron Acemoglu, Simon Johnson, and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91(5) (2001): 1369–1401, and Daron Acemoglu, Simon Johnson, and James A. Robinson, "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics* 17 (2002): 1231–1294.

[61] See, e.g., Jeffrey D. Sachs, "Institutions Don't Rule: Direct Effects of Geography on Per Capita Income" (NBER Working Paper No. 9490, 2003).

[62] For a literature review, see Niclas Berggren, "The Benefits of Economic Freedom," *Independent Review* 8(2) (2003): 193–211.

[63] Easterly and Levine find evidence suggesting that institutions are the fundamental cause of long-run economic performance. William Easterly and Ross Levine, "Tropics, Germs, and Crops: How Endowments Influence Economic Development," *Journal of Monetary Economics* 50 (2003): 3–39.

[64] Dani Rodrik, Arvind Subramanian, and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development," *Journal of Economic Growth* 9 (2004): 131–165 at 135.

Nonetheless, although institutions may be of primary importance for economic growth, exactly which institutions are important and why is still open to debate. Acemoglu and Johnson identify two types of institutions that reasonably could be thought to be important for economic growth: property rights institutions and contracting institutions.[65] They identify property rights institutions as those that determine how secure property is from expropriation by the state or governmental entities. Contracting institutions are identified as those that govern the security of contracts signed by individual economic agents and how well those contracts are enforced. To address problems with endogeneity, they use colonial mortality as the instrument for property rights and indicators for the origins of the country's legal system as the instrument for the contracting regime.[66]

This analysis reveals a strong relationship between property rights institutions and economic performance. However, once these are controlled for, contracting institutions have no statistically significant impact on growth. The authors hypothesize that, in an environment of secure property rights, economic agents will be able to develop sufficient mechanisms, such as reputation monitoring, to overcome shortcomings from a country's contracting rules.

These results suggest that, in addition to free trade, other political and social institutions will also be important determinants of overall growth in general. These institutions also are likely to have important implications for the plight of the poor specifically, as suggested by De Soto.

E. Conclusions Regarding the Economic Literature

Although free trade is a positive-sum game when nations are concerned, it will of course produce individual winners and losers, and many of those losers will be poor.[67] However, as we saw, our claim here is not that the position of

[65] Daron Acemoglu and Simon Johnson, "Unbundling Institutions," *Journal of Political Economics* 113(5) (2005): 949–995.

[66] The intuition and data for these instruments come from Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, "Legal Determinants of External Finance," *Journal of Finance* 52(July) (1997): 1131–1150; Rafael LaPorta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, "Law and Finance," *Journal of Political Economics* 106(4) (1998): 1113–1155; and Simeon Djankov, Rafael LaPorta, Florencio Lopez-de-Silanes, and Andre Shleifer, "The Regulation of Entry," *Quarterly Journal of Economics* 117 (2002): 1–37.

[67] A more complete treatment of the theoretical and particularly the empirical literature on the relationship among trade, growth, and poverty is available in the working-paper version of the article (available at http://ssrn.com/abstract=1022996).

each poor person will improve as a result of trade liberalization; in fact, no policy can do that. The claim is that, in virtually every instance, the position of the poor as a class will improve. More specifically, trade liberalization can affect the welfare of the poor by changing prices of tradable goods and improving access to new products; changing the relative wages of skilled and unskilled labor and the cost of capital; affecting government revenue; changing incentives for investment and innovation; and affecting the vulnerability of an economy to negative external shocks.[68] On the issue of cost of goods, trade liberalization will help the poor in the same way it helps all consumers: by lowering prices of imports and keeping the prices of substitutes for imported goods low, thus increasing people's real incomes. On the question of wages, the evidence seems to show a number of things. Labor markets require flexibility in order to adjust to comparative advantages. If firms are too constrained by labor laws from reducing their work forces, then the poor may suffer as a result. This is ironic, given that supporters of strict labor regulations claim to act on behalf of the poor.[69] In addition, the gap between the wages of skilled and unskilled workers may increase,[70] but this is hardly an objection to the claim that the poor as a class benefit from trade liberalization. The objection that liberalizing trade will reduce government revenues, and thus its ability to fight poverty, is also misplaced because it ignores the dynamic effects of trade liberalization. If trade liberalization produces growth then taxable incomes will grow as well, and government revenues will grow with them.[71]

In sum, trade liberalization (1) increases aggregate wealth, that is, wealth measured aggregately in both trade partners; (2) increases wealth in each of the trade partners; and (3) *at the very least*, within each trade partner, such growth is most often shared by the poor in various ways. Nevertheless, the claim is *not* that trade liberalization reduces inequality among trade partners or among different groups or individuals within the trade partners.

[68] See Geoffrey J. Bannister and Kamau Thugge, "International Trade and Poverty Alleviation," *Finance and Development* (December 2001): 48.

[69] Thus, e.g., critics of "sweatshops" claim that, partially as a result of lax work conditions, "clothing companies benefit from free trade through BIG profits, and garment workers lose out." See http://www.sweatshopwatch.org/index.php?s=36 (last accessed February 2, 2007).

[70] See Elias Dinopoulos and Paul Segerstrom, "A Schumpeterian Model of Protection and Relative Wages," *American Economic Review* 89 (1999): 450–472.

[71] See Bannister and Thugge, supra note 68, at 49. There are a number of combinations to maintain government revenues at an acceptable level, for example, replacing nontariff barriers with tariffs. Ibid.

IV. THE PHILOSOPHERS

A. *The Failure to Recognize the Importance of Trade*

An important part of the international ethics literature is concerned with global justice.[72] What moral duties do wealthy nations and their citizens owe to poor nations and their citizens? What global economic arrangements are required by justice, especially in the light of the pressing problem of world poverty? Many (but by no means all) who currently write on cosmopolitan justice have argued that current restrictions of nations and borders are arbitrary, at least from the perspective of helping the world's poor.[73] For some, preference for compatriots is objectionable; for others, such preference is appropriate but it does not rule out duties to foreigners, and in particular help to the world's poor. That help may assume various forms: private charity, including aid through nongovernmental organizations, or, more often, governmental aid. Most writers favor governmental aid with the familiar argument that governmental measures solve a collective action problem. A few influential philosophers reject cosmopolitanism and argue that justice makes sense only within the state, but even they agree that there is a duty to do something about world poverty based on elementary notions of humanity.[74] Most global justice philosophers, however, recommend either extensive foreign aid or massive redistribution by a global welfare agency financed through a universal tax. Thomas Pogge's proposal for a "Global Resources Dividend" is typical:

> [S]tates and governments shall not have full libertarian property rights with respect to the natural resources in their territory, but can be required to share

[72] Book-length treatments include the following: Andrew Altman and Christopher Heath Wellman, A *Liberal Theory of International Justice* (Oxford: Oxford University Press, 2010); Darrel Moellendorf, *Cosmopolitan Justice* (Boulder, CO: Westview Press, 2002); Kok-Chor Tan, *Justice without Borders* (Cambridge: Cambridge University Press, 2004); Kok-Chor Tan, *Toleration, Diversity, and Global Justice* (University Park: Pennsylvania State University, 2000); Charles K. Jones, *Global Justice* (Oxford: Oxford University Press, 1999); Thomas Pogge, *World Poverty and Human Rights* (Cambridge: Polity Press, 2002); Simon Caney, *Justice beyond Borders* (Oxford: Oxford University Press, 2005), chapter 5; Pablo De Grieff and Ciaran Cronin (eds.), *Global Justice and Transnational Politics* (Cambridge, MA: MIT Press, 2001); and Allen Buchanan, *Justice, Legitimacy, and Self-Determination: Moral Foundations of International Law* (Oxford: Oxford University Press, 2004), chapter 4.

[73] See, e.g., Pogge, supra note 72 at 118–145; and Moellendorf, supra note 72 at 36–44.

[74] In this sense, see Thomas Nagel, "The Problems of Global Justice," *Philosophy and Public Affairs* 33 (2005): 113, 119–120. This article elicited various replies. See Joshua Cohen and Charles Sabel, "Extra Republicam Nulla Justitia?," *Philosophy and Public Affairs* 34 (2006): 147; and A. J. Julius, "Nagel's Atlas," *Philosophy and Public Affairs* 34 (2006): 176.

a small part of the value of any resources they decide to use or sell. Proceeds from the GRD are to be used toward ensuring that all human beings can meet their own basic needs with dignity.[75]

In this chapter we do not take sides on whether a defensible system of international ethics countenances a *thick* notion of distributive justice, or if, on the contrary, we only have *thin* obligations of aid toward foreigners. We do not decide, that is, whether the duty to address world poverty stems from basic notions of humanity (as Thomas Nagel claims), or whether that duty is required instead by justice (as Nagel's critics claim[76]). We only assume that, under any appropriate system of international ethics, alleviating poverty should be a major goal of international economic institutions. This approach is consistent with either of the views just described.

With that goal in mind, in the light of our discussion so far, it seems reasonably clear that anyone concerned with global poverty must address the issue of free trade. Philosophers, however, either overlook trade almost entirely, or reject free trade, or recommend "equitable" trade. None of the major works on global justice draws on the relevant economic literature, the general consensus of which recommends, as we saw, free trade as a way to enhance global and national wealth and thus benefit the poor. The omission is truly perplexing,[77] especially because the question of whether justice requires free markets or government regulation is (at least sometimes) part of the debate on *domestic* issues. Nonetheless, despite the strong consensus of economists on this point, philosophers and politicians continue to claim or imply that attempts to liberalize trade are objectionable because they often result in "inequitable" terms of trade. A brief review of the philosophical literature will help us see the pervasiveness of this problem.

Thomas Pogge, one of the leading philosophers of global justice, addresses the question of world poverty. He mounts a scathing criticism of the policies of developed nations as well as of current economic institutions such as the

[75] Pogge, supra note 72, at 196–197. See also Tan, supra note 72, at 158–159.

[76] See Cohen and Sabel, supra note 74. See also Julius, supra note 74, at 176.

[77] As an example, in a book entirely devoted to international distributive justice (Charles Jones, *Global Justice*, supra note 72), one searches in vain for any discussion of international trade as a possible way to help the world's poor. The closest reference that we found was hostile to trade: an indictment (justified, for all we know) of transnational corporations who sell baby-milk powder. See ibid., at 71–72. Likewise, in Altman and Wellman, supra note 72, the word "trade" does not appear on the index. In his book on international ethics, *The Law of Peoples* (Cambridge, MA: Harvard University Press, 1999), John Rawls does not discuss trade. There is evidence, however, that his views were quite hostile to free trade and globalization. See van Parijs and Rawls, "Three Letters on The Law of Peoples and the European Union, supra note 50.

WTO. His main argument is that, given the gravity and urgency of world poverty, rich nations are guilty of criminal neglect by not doing the things they could do to alleviate it.[78] Pogge scores some important points in his multifaceted attack against current global institutions, as in his criticism of the international borrowing privilege (i.e., the prerogative of governments, especially in developing countries, to access large sums of money), which fosters corruption and other evils that end up aggravating poverty.[79]

However, given Pogge's concern for the plight of the world's poor, one would have expected a thorough treatment of the question of trade, including a state-of-the-art discussion of the relevant economic research. Not so. To be sure, Pogge says he would favor free trade under different conditions. His opposition to the present state of affairs is "no reason to oppose any and all possible designs of an integrated global market economy under unified rules of universal scope."[80] However, on the same page he describes the relative trade liberalization that has occurred in the past couple of decades as the "brutal path of economic globalization which our governments have chosen to impose." After indicting globalization in this way (thus implying that it, and not the bad policies of the often inefficient, dictatorial, and corrupt régimes in developing countries, are to blame for poverty), he nowhere mentions the law of comparative advantage.

Further, he does not mention the harm that protectionist measures in developing nations inflict on the poor. His only concession to mainstream economics is his condemnation of the protectionist policies of rich countries. In fact, his references to trade are scarce and, for the most part, erroneous. He writes, for example, that the WTO system is unjust because "it opens *our* markets *too little* and thereby gains for us the benefits of trade while withholding them from the global poor."[81] Pogge does not expressly say that protectionist barriers are good for the country that erects them. However, this silence is precisely the problem we identify in this chapter. The same theory (standard economic trade theory) that condemns protectionist barriers erected by rich countries condemns protectionist barriers erected by developing countries, and any responsible study of trade and poverty should mention this fact. This general position is reminiscent of the discredited theories behind mercantilism, the view that the country that erects protectionist barriers gains and that the country that liberalizes loses (unless the trading partner also liberalizes).[82]

[78] See Pogge, supra note 72, at 1–26.

[79] Ibid., at 113–115.

[80] Ibid., at 19–20.

[81] Ibid. (emphasis in the original.)

[82] In written communication distributed at the University of Virginia Conference on Global Justice, held in November 2006 (on file with the author), Thomas Pogge says, in response to the criticism in the text, that he did not suggest "that protectionist barriers are good for the

Trade protection by rich countries is wrong, not only because it hurts producers in poor countries (as Pogge correctly observes) but also because it hurts *its own* people. When the United States enacts the Farm Bill, it does not "gain" for the United States the "benefits of trade," as Pogge says. It hurts American consumers, perhaps especially the poor, by (among other things) raising the prices of agricultural products.

Some authors suggest that, directly or indirectly, rich nations bear the main responsibility for world poverty and thus for alleviating it.[83] Here we do not address the plausibility of this claim in its general form. However, such emphasis on the responsibility of rich nations obscures the crucial fact that bad governments and bad institutions are a major cause of poverty in developing nations. One manifestation (albeit not the most evident or egregious) of bad government is protectionism. Protectionism *by poor countries* is self-destructive. One can ask why, then, governments erect trade barriers. We speculate that this is not a cognitive mistake – an ignorance of standard economics.[84] Rulers know well that the trade-restrictive measures they enact hurt their people, but they persist because those measures *benefit them, the agents of the governments*.

Trade barriers are generally responses to lobbying by powerful local monopolies that, in turn, help those governments remain in power. The irony here is that because protectionist measures are justified by nationalist rhetoric, and because the law of comparative advantage is opaque and counterintuitive, the poor cannot *see* that their own predicament is caused to some extent by those measures. Politicians trade on the public's rational ignorance.[85] What these laws do is to consolidate local monopolies at the expense of *local consumers*, that is, at the expense of everyone else in the country (because everyone is, of course, a consumer).[86] In addition, protectionist laws create incentives for misdirecting economic resources toward inefficient activities, thus causing

country erecting them," and added that "there is no general answer to this question." Our main disagreement, then, is on this last point: We believe there *is* a general answer to that question.

83 See, e.g., Tan, supra note 72, at 29–32 (arguing that the current economic order, sustained by rich nations, perpetuates world poverty); see also Pogge, supra note 72, esp. chapter 4 (arguing that ignoring world poverty amounts to criminal neglect).

84 In a recent book, Bryan Caplan claims that governments and citizens make cognitive mistakes when they support bad policies. See Bryan Caplan, *The Myth of the Rational Voter* (Princeton, NJ: Princeton University Press, 2008). We agree that citizens err, but we do not agree that governments err when they adopt these bad policies: They know very well what they are doing. Our reasons for this are found in Guido Pincione and Fernando Tesón, *Rational Choice and Democratic Deliberation* (Cambridge: Cambridge University Press, 2006).

85 The public's ignorance is rational because the informational costs are high. For a full treatment of this phenomenon and how it distorts democratic deliberation, see ibid.

86 See Robert Cooter, "2005 Madd Lecture: Law, Innovation, and the Poverty of Nations," *Florida State University Law Review* 33 (2005): 373, 392–393.

a reduction in aggregate welfare and loss of jobs in the (now discouraged) efficient industries – those where the country enjoys a comparative advantage. Protectionist policies are worse than simple transfers of resources from consumers, foreign producers, and unprotected industries to producers and workers in the protected industries. Those policies, in addition, produce deadweight losses, economic losses that no one else recoups. They are games in which some gain, but in which losers lose more than the winners gain.

Protectionist policies are often the result of political rent seeking and other forms of predatory behavior.[87] Well-organized protected industries hire powerful lobbyists who essentially "buy" the protectionist legislation from politicians interested in incumbency. Given this, and contrary to Pogge's claims, world poverty is not caused only (and often, not mainly) by globalization or by the protectionist policies of rich nations.[88] Instead, poverty is largely the result of bad policies and practices pursued by the governments of developing nations who allow or practice predatory behavior. More generally, bad policies include protectionist measures, which, as we saw, hurt all consumers in that society; political corruption and other forms of unproductive public spending; lack of respect for civil and political rights; lack of appropriate transfer policies; failure of the rule of law; lack of protection of private property and freedom of contract; inept and predatory fiscal policies; and a deficient educational system. Although Pogge acknowledges some of these forms of government failure, by failing to reject mercantilism he implicitly endorses some of the policies that aggravate poverty.[89]

Allen Buchanan adopts a similar but more moderate stance in his otherwise good work on the moral foundations of international law. In one chapter, Buchanan addresses the role of distributive justice. Against Rawls and others, he argues that distributive justice should apply to the international "basic structure," and consequently that rich nations have a duty to help poor nations. Although he concedes that at present the international system is relatively incapable of enforcing these principles of distributive justice, he also believes

[87] The political dynamics of protectionism is well summarized in McGinnis and Movsesian, supra note 5, at 521–531. See also Gene Grossman and Elhanan Helpman, "Protection for Sale," supra note 44, and Thomas A. Pugel and Peter H. Lindert, *International Economics*, supra note 46, 61–78.

[88] Whether protectionist measures hurt foreign producers depends on the size of the market. If producers in developing countries can sell their goods elsewhere, then protectionism barriers in Europe and the United States are less certain to be harmful. Nonetheless, we happily agree that protectionist barriers in developed nations are objectionable.

[89] Pogge's criticism of the WTO régime (pp. 15–19) amounts to the simple point that unilateral protectionism of agriculture by rich nations (allowed by the WTO) has caused more poverty than the alternative regime of free trade for all, a point which is undoubtedly correct.

international law could further distributive justice. These measures include "promoting more equitable trade relations, labor standards, environmental regulation, aid for development, and endeavors to preserve global commons."[90] A call for equitable trade means presumably a call to reduce protectionist measures by rich countries so that poor countries can compete in those markets. However, supporting "equitable" trade is not the same as supporting free trade. As we saw, if rich Country A and poor Country B are both *equally and strongly protectionist*, then that would be equitable but nevertheless catastrophic for B (and, as we saw, bad for A too). Buchanan, too, never mentions or implies the well-tested truth that *the government that protects hurts its own people*.[91] That omission leads him to propose specific measures *restrictive* of trade: global wage standards, environmental regulations, and obligation of aid. We are not suggesting here that these measures are always, or often, misguided. What we observe, however, is that economic development depends on governments securing things that Buchanan does *not* mention: reducing barriers to trade and protecting private property rights and freedom of contract so as to attract investment – in short, economic liberties. Alleviation of poverty will not be achieved primarily by aid. Rather, poverty will be considerably alleviated by allowing poor people to exchange in the global market the things they produce for the things they need.

Buchanan's failure to support free trade may stem from his rejection of classic liberal or libertarian views about distributive justice (which he calls "anti-distributive").[92] Because defense of free trade is associated with classic liberalism or libertarianism, those who reject libertarianism may be hostile to free trade as a result of this association. However, opposing free trade on these grounds is a non sequitur. Buchanan could safely reject libertarianism as a theory of *domestic* justice and support free trade as a justified *international* arrangement calculated to help the world's poor. As we saw, whereas in our defense of free international trade we insist that nations should have healthy domestic institutions that sufficiently protect property and contract, we remain agnostic about which *other* domestic redistributive policies governments should enact to combat poverty. We simply claim that, whatever those measures may be, they do not include protectionist measures. So a state may implement worker-training programs, generous welfare programs, or universal

[90] Buchanan, supra note 72, at 193.

[91] See Jagdish Bhagwati, "Protectionism," supra note 17.

[92] Ibid. at 222–223. The use of the term "antidistributive" is already biased. Free markets also distribute resources and, moreover, they do so based on the choices of the agents, not of the government. The outcome may not please philosophers, but that does not mean that under free trade there is no redistribution of resources.

health care as ways to help the poor, while allowing free trade of goods and services with the rest of the world. This chapter does not take a position on that, except by observing that government failure aggravates the plight of the poor.[93] Government failure not only includes things that Buchanan recognizes, such as the failure to respect civil and political rights, but it comprises, in addition, excessive tax levels, lack of the rule of law, lack of independence of the judiciary, and the failure to protect private property, contract, and investment.

One way to encapsulate the mistake that Buchanan, Pogge, and many others (including the general public) make about trade is this. They see protectionism as an unsuccessful coordination game, implicitly saying, "[o]ur country must protect because we know *they* will protect. If only they made a credible commitment to repeal their protectionist laws, we would do the same." However, protectionism might be more accurately seen as a successful rent-seeking game: Industries affected by foreign competition seek and obtain protection from their governments in exchange for political support and other benefits. Two further facts explain the political success of protection notwithstanding the well-known fact that open trade is beneficial to the great majority of the population. First, the groups that benefit from free trade, such as consumers, are *diffuse* and have high organizational costs.[94] Second, although trade theory predicts that in the long run many of the workers and firms now hurt by foreign competition will be better off because free trade creates higher-paying jobs and higher returns to capital, workers and owners often cannot easily see these prospects.[95]

Given comparative advantage, if a country's trade partner protects, then that country is better off *not* protecting. Therefore, protectionist laws cannot be the result of a failed coordination game. The government erects trade barriers not because it believes that the trade partner will do the same, but, more likely, because local inefficient producers got the government to secure a domestic monopoly in their favor.[96] The government is not "protecting" its citizens; it is protecting itself and its friends.

[93] Buchanan not only fails to recognize government failure as a cause for poverty: Following Christiano, he *praises* the state as an agent of justice.

[94] See Mancur Olson, *The Logic of Collection Action* (Cambridge, MA: Harvard University Press, 1965).

[95] See McGinnis and Movsesian, "The World Trade Constitution," supra note 5, at 525.

[96] Adam Smith put it this way more than 200 years ago: "By restraining, either by high duties or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home market is more or less secured to the domestic industry employed in producing them." See Smith, supra note 45, at Book IV, chapter 2.

Mercantilists not only misunderstand economics; they overlook the problem of agency costs inherent in modern government. If we assume that part of the government's job is to benefit the people (improve the welfare of its citizens in an appropriately distributive way), then, in the light of the foregoing discussion, government should reduce trade barriers, even unilaterally.[97] But this is not what happens. Instead, a minority of citizens who want to be sheltered from competition succeed, through lobbying, bribes, and similar modes of influence, in securing protectionist laws in their favor. The government caves in because doing so is in *its* interest. The principal (the people) pays for the self-interested behavior of the agent (the government).

In a lengthy discussion of distributive justice, the philosopher Simon Caney unfortunately neglects relevant economic analysis. After surveying the philosophical literature, he proposes the principle that "everyone, without any discrimination, has the right to equal pay for equal work."[98] He then adds that this principle "no doubt condemns much of international trade," because under conditions of trade, wages are determined, he thinks, by the morally irrelevant fact of nationality. However, lower pay is not determined by nationality; it is determined by supply and demand for labor. Caney's principle relies on obsolete theories of just prices, wrongly assuming that the price of labor is not the result of the intersection between the labor supply and demand curves, but that each kind of work should receive an ideally just remuneration. More importantly, if Caney's principle were adopted then many developing nations would collapse, because much of their comparative advantage depends on offering competitive labor in the global market. Because of his neglect of standard economics, Caney, like Buchanan and Pogge, ends up endorsing universal aid and not trade liberalization.[99]

Other philosophers are openly hostile to free trade. In a book almost entirely devoted to international economic justice, Kok-Chor Tan declares that one main reason why globalization has failed the poor is "neoliberal ideology."[100] Tan endorses the main tenets of mercantilism: Free trade is bad because the playing field is "uneven" and thus "competition is never truly free, nor, importantly, fair."[101] Trade liberalization has failed to help the worst-off population, Tan thinks, and this is evidence that capitalism is the wrong way

[97] See generally Jagdish Bhagwati (ed.), *Going Alone: The Case for Relaxed Reciprocity in Trade Liberalization* (Cambridge, MA: MIT Press, 2002).
[98] Caney, *Justice beyond Borders*, supra note 72, 123. He adopts the language from Article 23 (2) of the Universal Declaration of Human Rights.
[99] Ibid. at 139.
[100] See Tan, *Justice without Borders*, supra note 72, at 32–33.
[101] Ibid. at 31.

to go.[102] For this proposition he cites not a single mainstream international economist. (He does cite Amartya Sen for a variety of views about the relationship between poverty and inequality, but he omits saying that Sen *supports* free trade.[103]) Tan's rejection of free trade not only disregards mainstream economics, but it also fails to control for important variables such as bad institutions and other forms of government failure, including protectionism in rich and poor countries alike.

Could philosophers concede that free trade may improve aggregate wealth, yet insist that protectionism is somehow required for *moral* reasons? This is highly unlikely. Protectionism is unlikely to serve the public good or any other plausible moral goal. Because individuals cannot make all the things they use, their standard of living will depend on their chances of exchanging the product of their labor with others, especially if they are poor.[104] Trade barriers are attempts by politicians to undercut this freedom of the poor, the freedom to exchange the goods they produce for cheaper and better imported goods. They need this freedom to escape poverty. Such coercion can hardly be justified by anything even remotely approaching fairness or justice.

What other moral argument can possibly justify protectionism? Philosophers do not explain just what value, or what right, a protectionist measure in a developing country is supposed to realize. One reason frequently heard in public debate is that trade barriers can be justified as attempts to protect workers in developing nations from layoffs caused by foreign competition.[105]

[102] See, e.g., p. 31 ("neoliberal economic principles cannot meet the basic human and developmental needs of the word's poorest sector"). In passing, we object to the use of the term "neoliberalism," a loaded word used by demagogues and others to deride capitalism and free markets and devoid of any serious scientific meaning.

[103] See Amartya Sen, "How to Judge Globalism," supra note 19.

[104] See James Bovard, "The Morality of Protectionism," *New York University Journal of International Law and Politics* 25 (1992–1993): 236.

[105] See, e.g., Moellendorf, supra note 72, at 61. He does suggest, however, that global mobility is a better remedy than tariffs. Ibid. Other philosophers do not address this point. That silence, we suggest, is precisely the problem: The consensus is that trade *increases* the employment rate in the long run. See Steven Matusz, "International Trade, the Division of Labor, and Unemployment," *International Economic Review* 37 (1996): 71. In contrast, the argument from job protection is popular in the political arena. A campaign advertisement for Senator Sherrod Brown (D-Ohio) read as follows:

> They said that NAFTA would be good for America, but nearly 50,000 Ohio jobs have gone to Mexico. CAFTA, the trade agreement with Central America, will cost us even more. Our trade policy with China has cost our country over a million jobs, huge trade deficits, and it's risking the transfer of sensitive military technology. I voted against all of these deals; my opponent voted for them. I'm Sherrod Brown; I approve this message; it's time to put Americans first.

Indeed, the vivid harm suffered by these workers is a crucial factor in the public defense of protectionism.[106] But such argument lacks philosophical and economic sophistication. To begin with, one should ask whether one has a moral right to keep a job that one currently holds. Having a job is not like having a piece of property. My employment stems from a contractual relation. My employers produce things that consumers demand and they hire me to help them produce those things. If consumers no longer demand the product (because they prefer the cheaper foreign product), it is hard to see what principle of justice authorizes my employers to enlist the government in force-feeding their products to consumers. Nor do I retain a right to my job, given that my employers do not need me anymore. It is hard to see what moral principle can justify the state's using coercion to help people produce things that consumers no longer want.

The protectionist could reply that workers have acquired certain expectations that the government must try to preserve. It is not the workers' fault, the protectionist may argue, that their industry is now inefficient. They got these jobs, started a family, bought a home, and, in short, made life plans that are now frustrated by events they cannot control. They are proper beneficiaries of societal help. In this view, trade barriers are justified, not so much to enrich the local employer (although it does that), but to preserve jobs. Furthermore, it is appropriate for consumers to pay for this: Society (the consuming public) subsidizes fellow citizens (the workers of the affected industries) who are suffering hardship. It is no different from other forms of wealth redistribution.

There are many replies to this argument, but we will mention three. First, this argument can only get off the ground if it is part of a noncosmopolitan theory of justice. If these trade barriers protect the local workers at the expense of the world's poor then they are unjustified under any cosmopolitan view, unless the protected workers happen to be part of the world's poor. Second, and what is more important, when a government protects an industry, it *hampers the creation of jobs in other industries*. This occurs because the economy is not able to adjust to the efficiencies of production. Resources are artificially directed to the less efficient endeavors. If this is so, what should we say about the person who is now unemployed *because those new industries* have not been created as a result of the strangling effect of protectionist laws? Seen in this light, beneficiaries of protection in developing countries are not particularly

Available at http://www.citizen.org/trade/articles.cfm?ID=15892 (accessed February 19, 2007).

[106] For an account of vividness, see the classic treatment in Richard Nisbett and Lee Ross, *Human Inference: Strategies and Shortcomings of Social Judgement* (Englewood Cliffs, NJ: Prentice-Hall, 1980), 45.

deserving, because protection is harming *other* persons in that society. Because those persons are the unemployed, they are worse off than the protected workers. Just as the firms obtaining protection get rich at the expense of foreign firms, so the workers in protected industries keep their jobs at the expense of the poor *in their own developing countries* – that is, the poorest persons in the world. Protectionist laws harm the poor directly by reducing their choice set as consumers. In addition, they harm the poor *indirectly* because they abort the creation of new industries and jobs. This harm is opaque, hard to see, a circumstance that facilitates the popularity of protectionist views among the general public. Finally, even if this argument is plausible and the state can legitimately aid workers hurt by trade, erecting trade barriers is a bad remedy. Domestic transfer policies such as industrial retraining are more efficient and fair ways to help those workers.

B. The Problem of Stolen Goods

International trade takes place mostly between private agents. A private producer in state A attempts to sell his product to private consumers in state B but the government of state B interferes by placing trade barriers, thus raising the cost for the consumers. Governments, we have argued, should not interfere with these voluntary transactions. But sometimes this voluntariness has been vitiated. Trade presupposes legitimate ownership over the traded goods, but sometimes the traded goods are stolen. How should the international trade system address the problem of stolen goods? The view that condemns trading in stolen goods has two versions: the Imperialist Thesis and the Dictator-Thief thesis. According to the Imperialist Thesis, rich people in developed nations presently hold resources that they obtained in the past from people in developing countries through theft, force, and deception. Trading with the poor the very resources that the owner stole from them is deeply wrong. According to the Dictator-Thief thesis, despots stole resources from their subjects and sold them to foreigners (usually in rich nations) mostly to advance the despots' own interests and power. Both theses recommend corrective measures even before opening trade. We must return the stolen goods to their rightful owners; only then we could start talking about free trade. I discuss each thesis separately.

We have two replies to the Imperialist Thesis. The first is simply that its factual premises are, for the most part, wrong. The reasons why some nations are rich and others are poor have little to do with theft. Rather, they have to do with different equilibria between productive and predatory forces in society, as reflected in the quality if institutions and in particular on the success or failure of market-friendly practices. But there are surely some instances (some colonial cases comes to mind) where perhaps some of the resources currently held by persons in rich countries are ill-gotten. However, even if ideally compensation would be sometimes justified, the practical difficulties of determining what part of the current wealth held by individuals should be returned to their rightful owners would be daunting. Surely not all wealth, not even its greatest part, is stolen.

But the Imperalist Thesis is misconceived in another sense. It recommends *not* liberalizing trade on the grounds that rich countries have no title over the goods they trade. Yet international institutions should help *reduce poverty, here and now*. If corrective measures are infeasible either because the theft took place too far back in time, or because we cannot possibly know the percentage of wealth that was stolen, or because the amount of coercion needed to restore the *status quo ante* is morally prohibitive, or simply because international politics pose insurmountable practical obstacles, or for some other reason, then that should not be a reason to refuse to liberalize trade, here and now, as a way to alleviate the world's poverty.

The Dictator-Thief thesis is harder to answer.[107] A defense of free trade rests on the moral worth and beneficial effects of voluntary transactions. Yet dictators in some developing countries often appropriate the resources from the people and then sell them to foreigners, most of the time for their own enrichment. In these cases the international transaction was *coerced* at some point, namely when the tyrant appropriated the resources at gunpoint. The case evinces an egregious failure of *domestic* institutions, aggravated by a defective rule of international law – the so-called principle of effectiveness.[108] Under international law, whoever politically controls the country has a right to sell its resources. This rule is obviously unjust, not only from the standpoint

[107] The argument is made by Mathias Risse, "Justice in Trade I: Obligations from Trading and the Pauper-Labor Argument," *Politics, Philosophy, and Economics* 6 (2007): 356, and more fully by Leif Wenar, "Property Rights and the Resource Curse," *Philosophy & Public Affairs* 36 (2008): 2.

[108] Under traditional international law, any government (with some exceptions) with effective political control over a territory is deemed to be, internationally, the legitimate government of the state. Moreover, international law is generally indifferent about how the resources of the state are internally distributed: They may be in private hands, or they may have been expropriated by the government in whole or in part. See, e.g., UN General Assembly, *Declaration of Principles of International Law Concerning Friendly Relations and Co-operation Among States in Accordance with the Charter of the United Nations*, 24 October 1970, available at: http://www.unhcr.org/refworld/docid/3dda1f104.html [accessed 25 April 2011], especially the principle that (e) "Each State has the right freely to choose and develop its political, social, economic and cultural systems." This rule allows governments to expropriate private property and do exactly what Wenar criticizes: sell them. Even more explicit are the principles in the Declaration on Permanent Sovereignty over Natural Resources, G.A. res. 1803 (XVII), 17 U.N. GAOR Supp. (No.17) at 15, U.N. Doc. A/5217 (1962), cited approvingly by Wenar:

of basic human rights, but from the standpoint of market rules themselves. The result is objectionable in principle because it countenances the sale of stolen goods, and in terms of its consequences because it aggravates poverty, since the tyrant does not utilize the resources to benefit the people but to increase his own power and wealth. Because the gains from trade are achieved at the expense of the victims of theft and oppression, these persons arguably have a fairness complaint against the trading partner, that is, the buyer of stolen goods.[109] An evaluation of free trade from the standpoint of justice must therefore recommend, as Leif Wenar does, abolishing the rule of effectiveness and substituting the principle that resources belong to the rightful owners and not to the rulers.[110] I think, therefore, that Wenar's general point is essentially correct and that the international trade system should be reformed to require that exported goods belong to their rightful owners.

There are a couple of difficulties with the argument, however. Wenar claims that material resources *collectively* belong to the people. This principle, he says, is compatible with either private or public ownership of the resources. According to Wenar, for the government to be legitimately entitled to sell the resources, the process of public acquisition must meet democratic strictures.[111] But the idea of the *people* collectively owning the resources does not sit well with private property rights. The farm belongs to the farmer, not to the people. Wenar attempts to solve this problem by requiring that any transfer of resources to the government be sanctioned by democratic procedures. Yet many formally democratic governments are not very different from our Dictator-Thief. The majority is no more entitled than the dictator to steal from the private owner *just because it is a majority*. So, in order to specify the rightful owners of the traded goods, Wenar must add a plausible *substantive* theory of justice that shows when the government may redistribute resources in its favor (or in its friends' favor). This is not the place to discuss this large issue in political philosophy. Suffice it to say that grotesque dictators are not the only ones who steal resources from their rightful owners. Many democratically elected

> 4. Nationalization, expropriation or requisitioning shall be based on grounds or reasons of public utility, security or the national interest which are recognized as overriding purely individual or private interests, both domestic and foreign.

[109] Risse, supra n. 107, p. 362.

[110] This same point was made by Thomas Pogge, "Recognized and Violated By International Law: The Human Rights of the Global Poor," *Leiden Journal of International Law* 18 (2005): 717; Peter Singer, *One World: The Ethics of Globalization* (New Haven: Yale University Press, 2004): 96–105; and, in general terms (not specifically in reference to the trade system) in Fernando R. Tesón, *A Philosophy of International Law*, supra n. 10, pp. 1–2.

[111] Wenar, supra n. 107, pp. 20–21.

governments (governments that would satisfy Wenar's proviso) systematically steal from their citizens as well.

Moreover, dictators of the world believe that placing the collective ownership on "the people" entitles them, the dictators, to dispose of the resources. As we indicated, the standard interpretation of the international instruments that Wenar cites (such as the Declaration on the Permanent Sovereignty of Natural Resources) endorses the governments' power to expropriate resources. This is why dictators support the principle that the "people" collectively own the natural resources: They claim to represent the people, *l'état, c'est moi!* In other words: Wenar's interpretation of the principle of permanent sovereignty over natural resources departs from the (objectionable) common understanding in international law that undemocratic governments, too, are deemed to represent the people. This means that Wenar cannot just invoke the people's ownership of natural resources without adding a theory of international representativeness that is diametrically opposed to (although of course better than) the theory presupposed by the international instruments on which he relies.

Finally, it is entirely unclear that the government in the country where the prospective buyers reside will cure this injustice by erecting protectionist barriers. The Dictator-Thief problem dramatically underscores the fact that most injustices are homegrown, as we have indicated. While opening international trade alone will not remedy those injustices, closing trade will not do the job either. Here as elsewhere, protectionism is an ill-suited remedy to cure the problem. Something different is required, namely establishing a corrective procedure for restoring the stolen goods to their owners while maintaining free trade. The Dictator-Thief objection accurately identifies a problem in international trade, the problem of predatory rulers. *This* problem, however, cannot be solved by protectionist laws.

These difficulties are not fatal to Wenar's thesis. He can simply claim that the global trade system must address the difficulty of stolen goods, *whatever* our thesis may be about when the goods are in fact stolen. Yet, the fact remains that, grotesque cases aside, liberal egalitarians will often disagree with classical liberals about when traded goods are indeed stolen goods.

C. *The Pauper-Labor Argument*

Some authors believe that domestic workers in rich countries are entitled to protection if the imported goods arrive in our shores, not through oppression or theft, but as a result of lower labor standards in the countries of origin. This is the Pauper-Labor argument, usually advanced with considerably stridency in labor circles. Mathias Risse has given a qualified defense of this argument.

For him, if labor laws in rich countries are established for moral reasons, then for the sake of consistency workers harmed by imports deserve compensation from the government.[112] The idea is that the moral reasons that underlie labor standards are universal, so while the government cannot enforce those in the country of origin, it should acknowledge the universality of those reasons by compensating domestic workers harmed by imports. The domestic workers' competitive disadvantage is the direct result of a morally objectionable act.

It is doubtful, however, that many labor standards are always or often enacted for moral reasons. The overwhelming evidence is that governments enact them for a host of political reasons, including protectionist reasons.[113] However, perhaps labor standards are *supported* by moral reasons, even if the government had other reasons for enacting the standards. This will largely depend on the labor standard in question. Take minimum wages: It is unlikely that high wages in rich countries are supported by moral reasons. These salaries are the result of self-interested bargaining by workers, either individually or through unions, at a time where world labor markets were highly segmented. With the rise of globalization, it became obvious that labor in developing countries was more competitive. Labor leaders and politicians in rich countries speak of sweatshops and slave labor, thus implying that workers in developing countries are in the same moral category as the oppressed, that they are coerced into working for miserly salaries, almost at gunpoint.[114] This rhetoric conceals the fact that unionized workers in rich countries have been simply out-competed. Assuming voluntary relationships, including a right to terminate the contract, one does not have a right to an ongoing high wage if the employer finds someone that can perform the same work at a lower wage.[115] In fact, our intuition is exactly the opposite to Risse's: Domestic workers in rich countries are acting *immorally* when they demand protection against cheaper imports, because in doing so they are knowingly enlisting the state in the aggravation of world poverty.[116]

[112] Risse, supra n. 107, pp. 366–369.

[113] See Risse's example of the 1930 U.S Tariff Act, ibid. p. 367. Horacio Spector has identified labor standards precisely along these dimensions, and concluded that most of them do *not* reflect moral principles but rather rent-seeking, desire to avoid competition, etc. See Horacio Spector, "Philosophical Foundations of Labor Law," *Florida State University Law Review* 33 (2006): 1119.

[114] For a refutation of these arguments, see Matt Zwolinski, "Sweatshops, Choice, and Exploitation," *Business Ethics Quarterly* 17 (2007): 689–727.

[115] Of course, parties must abide by their contracts, so employers could be contractually committed to paying higher wages even if cheaper labor is available elsewhere.

[116] Quite apart from this, the evidence does not support the view that trading with developing countries has depressed wages in rich countries. Rather, trade with poor countries may well have improved wages, in the sense that it has moderated the decline that might have occurred due to

But perhaps *some* labor standards, such as occupational safety rules, are morally required in the sense that the workers have a *right* to those standards.[117] Even then, Risse's argument fails for two reasons. If workers in a developing country have a right to a labor standard, the employer who denies it harms those workers. It is entirely unclear why workers in the *rich* country should be entitled to compensation, especially considering that the taxpayers of the rich country, who have done nothing wrong, must foot the bill. Maybe the argument is that the failure of the developing country to secure the standard creates a "right" by workers in the rich country that their government ban the import (or place trade barriers against it). This has the peculiar effect of enriching parties who were not wronged (were not denied the labor standard in question) and who are already much better off by global standards, while at the same time harming the people who have already suffered the alleged injustice.[118] Surely this cannot be right.

Further, the argument assumes that labor standards are *inalienable*. This is highly dubious. Imagine that the government of a developing country offers a choice to workers in a particularly successful industry. The government offers to enforce the standards, but workers have to understand that this would make their product more expensive and hence less competitive overseas. Because the market for this particular product is largely foreign, enforcement of the labor standards will adversely affect the workers' own welfare. Alternatively, the government offers to relax the standards to keep the industry internationally competitive and thus continue to benefit workers. If the workers accept this offer, they *consent* to lower standards in exchange for their overall economic welfare. They trade the risk of a workplace injury or illness for their enhanced prosperity. I cannot see why this would be objectionable unless one thinks, implausibly, that individuals are morally forbidden from making trade-offs of this kind. Accepting a higher occupational risk in exchange for a better economic prospect seems far removed from the standard cases of inalienability, such as consenting to being tortured, or even selling an organ. In this case workers in rich countries have no claim to protection.[119]

non-trade factors, such as labor-saving technological change. Jagdish Bhagwati, *Globalization*, supra n. 6, pp. 124–125.

117 We are even unsure about the claim that safety standards are morally required. Why not think of different levels of safety as labor benefits offered by businesses, so that workers can freely choose between various combinations of accident risk and economic welfare? But we do not pursue the matter.

118 We owe this point to Matt Zwolinski.

119 Matt Zwolinski and Ben Powell make a similar point in "The Ethical and Economic Case for Sweatshop Labor: A Critical Assessment" (unpublished, 2011). Here again, the evidence does not support the much feared "race to the bottom," i.e., the view that allowing imports

D. Trade and Human Rights

We can put our moral critique of protectionism into the form of a dilemma. Either a government enacts trade barriers as a response to lobbying and other forms of rent seeking, or it enacts them, as it should, out of a sincere desire to promote the public good. In the first case, protection is morally objectionable for obvious reasons: Having more lobbying or bribing power is hardly a characteristic that makes people deserving of a transfer of resources in their favor. If, in contrast, the government protects for public reasons (and not as a response to lobbying), it is hard to see what public reason can identify producers and workers of inefficient industries as deserving of a transfer of resources from (1) consumers and (2) those persons who remain unemployed because of the reduction in general welfare caused by protection (we are not considering here the harm done to foreign producers). In other words, any theory of justice concerned with the poor should have the poor as the rightful beneficiary of transfer of resources. However, the group "owners and workers of inefficient industries" is not coextensive with "the poor," and it is therefore an inappropriate beneficiary of redistribution – an inappropriate object of moral concern.

Liberal cosmopolitans tend to ground their views on human rights.[120] Standard lists of those rights include civil and political rights on the one hand and socioeconomic rights on the other. In view of the findings of the economic literature on the relationship between market institutions, growth, and the alleviation of poverty, we propose to reinterpret the principle that states must respect socioeconomic rights. We suggest that governments have a prima facie duty to alleviate poverty (understood in an aggregative measurable sense) in their territories. This is the domestic version of the international duty we mentioned at the outset of this chapter. The international community has a moral obligation to design international economic institutions and policies with an aim to alleviate world poverty in general. Our proposal, then, excludes the view that *each* individual has a right to a certain amount of food, or to a house, or to health care. But our view reaffirms the main thrust of socioeconomic rights. Nations must try to alleviate poverty.

from countries with low standards will cause governments to relax theirs, thus creating a desperate race to lower production costs. Rather, the evidence shows exactly the opposite, a race to the *top*. As incomes rise in poor countries, their growing middle class expects and demands improvements in the workplace conditions. See Bhagwati, *Globalization*, supra n. 6, pp. 127–134.

[120] See, e.g., Fernando R. Tesón, "The Kantian Theory of International Law," *Columbia Law Review* 92 (1992): 53; and Allen Buchanan, supra note 72, at 118–190.

In addition, we suggest rethinking the law and philosophy of human rights. An improved, economically literate version of human rights law should move away from the dichotomy of civil-political–socioeconomic rights and put forth instead a *trilogy* of recommendations. First, states should respect civil and political rights. The reasons for this are many and obvious, and they include the fact that enjoyment of civil and political rights facilitates development.[121] Second, states have a prima facie obligation to alleviate poverty. Discharging this obligation requires making trade-offs and establishing priorities among various development needs. Whether the fight against poverty requires laissez-faire politics or, on the contrary, government intervention in the economy (provided it respects property and contract) is an issue of institutional design that depends on context and cannot be decided in advance. Third, states should secure economic *liberties*.[122] In other words, they should not interfere with rights to private property and freedom of contract to such a degree that would create significant disincentives to productive activities and economic growth.

E. Protectionist Fallacies

The hostility that many people have to free markets blinds them in inexplicable ways. For example, objectors rarely notice that some of the bad effects of free markets are the result of *government* failure, not of the workings of markets. For example, those who criticize free trade by citing the predatory behavior of transnational firms in developing countries overlook the fact that, in those cases, transnational firms *bribed* corrupt governments, often to secure cheap labor.[123] This appalling behavior would be banned in a global *free* market system. The system we propose would use coercion (supervised, perhaps, by appropriate international institutions) only to make sure that exchanges are *voluntary*. Free trade is based on free exchanges, and there is nothing free about a firm's bribing a government to secure slave labor.

[121] Amartya Sen, supra note 22, chapters 1–3.

[122] See generally James W. Nickel, "Economic Liberties," in Victoria Davion and Clark Wolf (eds.), *The Idea of Political Liberalism* (Lanham, MD: Rowman & Littlefield, 2000), 155–175; and Loren Lomasky, "Liberalism without Borders," *Social Philosophy and Policy* 24 (2007): 206, 213–217 (the main cause of poverty is bad institutions, including the lack of economic liberties).

[123] See, e.g., *Doe v. Unocal Corp.*, 963 F. Supp. 880, 883–85 (D.C. Cal. 1997) (recounting the factual setting where the transnational firm allegedly obtained slave labor from the Government of Burma); *Doe v. Unocal Corp.*, 27 F. Supp. 2d 1174, 1178–79 (D.C. Cal. 1998) (same); *Doe v. Unocal Corp.*, 395 F.3d 932, 936–43 (9th Cir. 2002) (same).

Defending free trade faces another difficulty. As a proposal to address world poverty, the recommendation to liberalize trade suffers from a rhetorical disadvantage against its two rivals, namely protectionism and global redistribution. This occurs in two ways. On the one hand, the merits of free trade rely on opaque, impersonal workings of the market. For free traders, the poor will improve, not as a result of individuals and governments engaging in altruistic acts of charity, but by allowing them to advance their self-interest through voluntary exchanges. In contrast, proposals for international aid are vivid; they look like acts of charity imbued with the right altruistic intent. By implementing aid, for example by establishing a global agency to redistribute resources, we are giving things to people who need them. It looks as if we are discharging our justice-based duty. Of course, this does not mean that politicians who support international aid are necessarily acting out of duty. There are good reasons to believe politicians react to electoral incentives, which may favor aid, at least relative to trade. A politician who supports trade is at a rhetorical disadvantage because she advocates transactions from which the rich will also benefit. Given the vivid views that the public has, voters might not see moral worth in trading with the poor, even if the poor are thereby made much better off, because the trader is simply acting out of self-interest.

At the end of the day, philosophers recommend to people in power (governments, international institutions) that they do things, here and now, that discharge the justice-based duty toward the poor in a vivid way. That may be why foreign aid, and not trade, is important to them. Aiding a poor person looks like a lofty way of implementing our justice-based duty to that person. Trading with this person does not, *even if the poor as a class are better off with widespread trade than with widespread aid*. Free trade rests on self-interest, and this, we believe, is one of the reasons why philosophers overlook free-trade institutions as a way to help the poor. Promoting trade, for them, is not a sufficiently *lofty* way to discharge our duties based on justice.

This approach is deeply mistaken, an instance of Kantianism gone awry. If we care about helping the poor, we should care about designing institutions that do just that – help the poor. We should not support institutions that help the poor inefficiently, simply because the intent of the actors is, arguably, more pure.[124] The justice-based duty to help the poor has a *consequentialist* structure. It enjoins us to do those things that alleviate poverty, not those things that are subjectively pure yet counterproductive or insufficient. If trading with

[124] For a skeptical view on the possibility that those political proposals may be defended on account of their *symbolic* value, see Guido Pincione and Fernando R. Tesón, "Self-Defeating Symbolism in Politics," *Journal of Philosophy* 98 (2001): 636.

the poor helps them more than giving them things for nothing, then trading is morally preferable to aiding.[125]

There is another reason why supporters of free trade tend to lose in the political arena. It stems from the rhetoric of protectionism. Protectionists rely on the imagery of nationalism. We need to protect "us" against "them"; our local industries against the invading products; our culture against immigrant invasion.[126] This is an instance of the use of vivid imagery for political purposes. To see the advantages of trade, people need to see that the country that protects *hurts its own people* because protection hurts consumers. This is concealed by the notion of "protecting" something that is ours, in our country, against something that comes from the outside. Because that "something" is alien, external, politicians and rent seekers can easily portray it as a threat. All one can say is a trivial truth: The government can protect *specific* workers by protecting the industry from foreign competition. However, trade barriers do not "protect" the employment rate in one's country because of their high opportunity costs (that is, they prevent the creation of new industries by artificially divesting resources toward the protected sector). Trade barriers do not "protect" the real value of wages; and they positively harm consumers, reducing general welfare particularly among the poor. When the rhetorical smoke clears, trade barriers "protect" weak producers by giving them the chance to prey on even weaker consumers.[127] Particularly hidden are the opportunity costs of protectionism, that is, the harmful effects of protection in other sectors of the economy, including reduced job creation in those other sectors. Workers in industries yet to be created do not have lobbyists (nor philosophers, it seems) to champion their cause.

v. CONCLUSIONS

We have addressed the surprising lack of attention philosophers pay to liberalized trade as a mechanism for improving the condition of the poor. Our discussion can be summarized as follows:

[125] Fernando Tesón and Guido Pincione call the rhetoric we criticize in the text "the moral turn." This is defending a public policy on nonconsequentialist grounds and thus ignoring the policy's unpalatable consequences, when it is unreasonable to do so (that is, when unpalatable consequences *should* reasonably be taken into account). See Pincione and Tesón, supra note 84, chapter 6.

[126] This rhetorical argument was criticized more than a hundred years ago by Henry George, *Protection or Free Trade: An Examination of the Tariff Question, with Special Regard to the Interests of Labor* (1886), chapter 6 (*available at* the Library of Economics and Liberty, http://www.econlib.org/library/YPDBooks/George/grgPFT6.html; last accessed February 19, 2007).

[127] Bovard, supra note 104, at 238.

1. Persons and governments have a prima facie duty to try to alleviate poverty. We remain agnostic as to whether this duty stems from principles of justice or from elementary considerations of humanity.
2. Those duties are owed to the world's poor as a class, not to individuals or states.
3. For empirical reasons, liberalizing trade and immigration are likely to go a long way toward implementing those duties.
4. Protectionist measures are morally indefensible both because they harm the poor and because they benefit undeserving persons.
5. In order for trade to benefit the poor, nations need to have good institutions; in particular, they must respect civil and political rights, property, and contracts.
6. What other policies governments may pursue to reduce poverty is left as an open question (thus we are not committed to the view that whatever distribution results from the market is ideally just).
7. Free trade is required by *any* plausible theory of international justice.

This chapter identifies a serious omission in the global justice literature. Scholars in this area ignore the theoretical claims and empirical evidence of economists suggesting that liberalized trade is likely to improve the condition of the poor. The benefits from trade to the poor are denied both by protectionist measures in developed countries and by local monopolies and foreign interests allied with those in power in developing nations. Few things have done as much to cause the economic stagnation in the developing world as the policies of import substitution and similar protectionist devices (perhaps only *political* failure ranks higher in the list of such causes).[128]

Developed countries have chosen to protect their inefficient industries – notably, but not only, agriculture. They deserve scorn for not opening their markets to products made by the world's poor. Ruling elites in developing nations deserve scorn for allowing bad institutions and political practices, including misguided protectionism. Realizing these facts, rather than engaging in cheap talk about socioeconomic rights, global taxes, and ineffectual treaties, will help the poor. International reform, then, should try to *create those effectively functioning institutions* that best help the poor. Because trade relies on mutual advantage and not on altruism, there is little doubt in our

[128] For the effect of import substitution policies in Latin America, see Joseph L. Love, "The Rise and Decline of Economic Structuralism in Latin America: New Dimensions," *Latin American Research Review* 40 (2005): 105 ("it is universally agreed that ISI has not been a viable policy for some time"). For a useful account of the debate, see generally Henry J. Burton, "A Reconsideration of Import Substitution," *Journal of Economic Literature* 36 (1998): 903 (acknowledging that the pro-trade view has carried the day but suggesting a more nuanced view).

mind that liberalizing global voluntary exchanges, trade and immigration, will go a long way toward that goal. Critics of free trade simply do not believe that the poor can compete in world markets. They conjure up the image of poor and uneducated peasants immersed into a whirlwind of overwhelming economic forces that they cannot possibly shape or control. When we advocate that these poor peasants be allowed to participate freely in a global free market, we propose to endow them with freedoms they *do not* currently have: the freedoms to produce, work, trade, and emigrate at will. The poor peasants are the victims not of free trade but of one or more of the following: oppressive political conditions, in particular denial of human rights; collusion of the government with local monopolies or foreign producers; lack of protection of property and contract; lack of labor mobility; and stifling cultural structures. These failures cause poverty, not the other way around. Poor persons in developing countries could participate in the world economy, if only they would be given the chance to do so by those who hold an extraordinary amount of power over them.