

Free or Fair Trade

Issue introduction:

This position guide addresses the issue of international trade. By now many of us have heard of the phenomenon of Globalization and we also know that primary motivators for our global society are economic factors. Of all the structures and mechanisms that exist to develop the global economy none are as powerful or as prominent as international trade.

International trade exists because no nation is self-sufficient economically. No nation has all the resources it needs to provide a high standard of living for its inhabitants. Prior to 1945 nations had erected high tariff barriers to trade and had set up import quotas to protect local businesses and workers. In addition there was the system of colonialism in which large parts of Asia and Africa were economically dominated by governments in Europe.

The devastation of World War II presented an enormous challenge to the world. Europe, Japan and many countries in Asia had to be rebuilt, and colonial territories were freed and aided to transform themselves. An international institution was structured to address these global challenges. Two superpowers with different visions of economic organization (Capitalism vs. Communism) and governance (Democracy vs. Totalitarianism) faced one another for dominance and control. Korea and Vietnam were the most visible battlegrounds. This struggle ended with the collapse of Communism as an economic system while the political tendency towards totalitarianism still remains in China and Russia.

The victor is capitalism. It is now directing the process of increasing international trade and the integration of cultures and values that goes under the heading of globalization. The major instrument of this is the World Trade Organization. The question before us today is what kind of capitalism will direct this process. Will it be a capitalism that believes only in a free and unregulated market, or will it be a capitalism that will use government power to insure that all sectors of society participate in the growing economic pie that greater international trade produces?

This is what the current struggle of globalization is all about. Those who are debating the free trade issue are debating the economic ideology that governs global economic policies. In the academic arena this debate is very complex. After the passage of NAFTA in 1994 many non-academic interest groups have popularized the debate which has developed into the three separate camps of neo-liberalism, socialism, and third way. With the fall of communism the socialist model has fallen into almost complete economic disfavor and so the current globalization debate is centered around the dominant neo-liberal model and the emerging third way model.

Neo-liberalism is the economic model that identifies itself as a strict promoter of the free market system or laissez faire. It is suspicious of government regulation and considers such regulation to cause economic distress. It believes that a free and unregulated market is powerful enough to generate not only economic growth but also economic justice in the form of financial incentives for fair economic distribution. Generally neo-liberals believe in human rights and government protection of these rights but they are interpreted very narrowly as civil and political rights with an emphasis on the

protection of property rights. Although this wing of capitalism has existed in some previous academic circles, economists from the University of Chicago constructed this current global model and it became public policy through the Reagan/Thatcher administrations of the early 1980's.

The emerging third way model continues to promote a free market system but it does not have as much faith in the self-correcting nature of the market system and believes that good and balanced government regulations can address potential market volatility and private corruption. Whereas neo-liberalism begins with emphasizing the principles of the free market system, third way economists usually begin with a broader interpretation of human rights and sustainable development principles. They believe that a balanced relationship between private enterprise and public institutions can promote these values. Their policies usually include progressive taxation, social safety nets, education for all, access to medical resources and programs that promote greater economic distribution as well as access to both capital and labor. Economists have reinterpreted the former models of regulated capitalism such as keynesianism and kelsonianism in order to address the global challenges mentioned above. The global justice movement came about as a popular reaction to neo-liberal globalization and as a political reaction to the Reagan/Thatcher administrations. As a result progressive economists, organizations, and politicians led by the Clinton/Blair administrations began designing this third way economic model.

With regard to international trade neither group is against free bilateral or even regional trade. Even progressive organizations agree that in general a system of international trade that is free of barriers, tariffs, and subsidies can benefit the global economy and developing nations. The issue is whether or not international trade that currently follows the neo-liberal model is capable of creating a global economy that promotes security and benefits for the majority of the global community or if national and international regulations are needed to insure this.

The Christian response to the challenge of globalization has been varied. The Catholic lay association known as Focolare have developed an economic model known as the economy of communion that challenges the basic tenets of capitalism with core Catholic values. Chiara Lubich, the foundress of Focolare, presented her project as a system "Unlike the consumer economy, based on a culture of having, the economy of communion is the economy of giving." Some Christian theologians, like Michael Novak, promote neo-liberal principles as morally compatible and indeed related to Christian values and tradition. On the other hand, the vast majority of Christian advocacy organizations believe in a regulated capitalist model that will promote distributive justice and the common good, have declared their principles in an Interfaith Statement on International Trade and Investments.¹

This will be the point that our two debaters will consider in this position guide. We would like to again reintroduce our pseudo-debaters Paul Jefferson and James Hamilton whose names remind us of people in early Christian and early American history who showed us how, as Christians and Americans, we can disagree with certain issues but can still work together to promote the mission of the early church (as in the case of Paul and James) or of the United States of America (as in the case of Jefferson and Hamilton). Paul Jefferson will argue for trade agreements that push for social and

¹ http://www.coc.org/pdfs/coc/interfaith_english.pdf

environmental principles and regulations. James Hamilton will argue for the neo-liberal approach saying that such regulations will have a negative effect for global economic growth. In arguing their positions they will primarily see themselves not as advocates for one interest group or another but as good Christians acting on a basic principle that has always been part of the Christian tradition, “remember the poor.”

Issue Debate

Paul: We must address the growing economic divide facing our global world.

When the North America Free Trade Agreement was being proposed in the early 1990's I championed it. Recently however, in 2005, I lobbied my congressperson to vote against the Central America Free Trade Agreement and the Free Trade Area of the Americas. What changed in me these past 10 years to cause this shift in me? Did I become an isolationist or a protectionist? No. I am still in favor of economic and social integration. I firmly believe that we can no longer exist economically or socially isolated from our world and much less from our neighbors. I still believe that a good free trade policy can generate good and distributive wealth between our neighbors and us. I am in favor of regional integration on an economic and social scale. But I am against the present model of free trade that is written to benefit a specific interest group, the transnational corporation and its competitive agenda. In its wake it has exacerbated the already existing economic divide that I thought free trade agreements were going to address.

Free Trade Agreements like NAFTA or CAFTA measure success based on the gross domestic production of a nation's economy. Based on this criterion it is fair to say that in the case of NAFTA all three member² found success. What is not taken into consideration is the overall social ramifications of this success. As an example in Mexico while manufacturing exports did increase, the average wage of Mexican manufacturing workers declined from \$5 per day in 1994 to \$4 per day in 2004. While US wages have remained stagnant the greatest effect to workers in this country has been the job loss resulting from manufacturers moving to Mexico. NAFTA proponents erroneously calculated job growth related to an expected trade surplus that never materialized. Instead the government created the Trade Adjustment Assisted program to deal with high job mobility to the south. According to this statistic 525,094 NAFTA related jobs loss was calculated between 1994-2002.³

At issue here is that international trade has become a mechanism of neo-liberal economic growth. Neo-liberal policies give every advantage to transnational corporations in order to maximize their productivity and competitiveness. These advantages come in two forms: freedom from regulations and public subsidies. Beyond this neo-liberalism has no concern with any other dimension of the social fabric. It simply assumes that if

² NAFTA members are Mexico, the United States, and Canada

³ Public Citizen's Global Trade Watch, Public Citizen's NAFTA at ten series, <http://www.citizen.org/trade/nafta>.

there is GDP and stock growth then everybody must be doing well, a version of the trickle down theory.

Neo-liberal economic policies became public policy for the U.S. in 1980 with the Reagan administration. Now let us consider some statistics between 1980 – 2004: According to the S&P 500 index the value of stocks went up 793% and the average pay for a CEO went up 743% from \$1.4 million to \$11.8 million. Yet according to the Bureau of Labor the hourly wage barely changed between those years, moving from \$15.68 to \$15.67.⁴ The economy obviously went up but nobody felt like distributing this growth.

Neo-liberal international trade is creating instability and volatility insofar as it is widening the gap between the rich and the poor. When people become aware of amazing levels of affluence and realize that no matter how hard they work they seem to amass none of it they then turn to alternatives. Some of these alternatives will include the illegal drug trade and human trafficking where they feel that they can at least get their foot in the door even though they will more than likely die trying. Another alternative is being part of a movement that challenges the predominant economic system. If you have some access to resource and some forms of economic security these movements can be non-violent attempts to reform the system such as the global justice movement. If you do not have any economic security and you are in a state where you have nothing to lose then you have violent ideologies of terror that give you some avenue to tend to your frustration. We should reflect upon the fact that the greatest terrorist attack was aimed at the buildings known as the World Trade Center. Just trade policies are essential for our national and global security.

James: In order to distribute wealth you have to make sure you are generating wealth to begin with.

The success of international trade must be dependant on economic growth that is best measured through gross domestic production. All social issues are dependant on this singular measure. The principle is fairly simple; consider this analogy of two families. One family has access to \$100 to spend. At that point they can all negotiate how to use it to gain certain access to goods or services that were previously unattainable. Now chances are that at this point the children will not have as much say in the matter as the parents. It may be that this \$100 will not be spent on education or health care since a better use for it would be to invest it in a way that it could accrue greater wealth. Once this particular family achieves greater wealth and financial stability then it can begin to open the possibilities of how to utilize their money and they can allow for greater input from the rest of the family's needs including education and health care. The other family, however, has no access to the initial \$100. For that family nothing is on the table and the status quo that includes a lack of education and health services remains the same.

Any discussion regarding economic distribution must be made secondary to the primary issue of maintaining ongoing economic growth. Paul's argument sounds as if the members of the 1st family (that received the \$100) demanded equal access to that money. The children would spend it as they wanted and only perhaps minimal consideration was

⁴ United for a Fair Economy, "The Growing Divide: Inequality and the Roots of Economic Insecurity" pg. 12

given to investing it. At that point there would be no way to assure that this family would receive and further financial wealth. To me this is nothing less than social irresponsibility.

Paul already concedes that based on economic growth NAFTA has been successful. I will elaborate on this primary success between 1993-2003⁵:

1. NAFTA members experienced economic growth.
 - a. United States: 38% growth
 - b. Canada: 30.9% growth
 - c. Mexico: 30% growth
2. All three members experienced dramatic export growth with NAFTA partners.
3. Productivity rose with all three NAFTA members.
 - a. United States: 28%
 - b. Canada: 23%
 - c. Mexico: 55%

Regarding the secondary concerns that NAFTA in particular and neo-liberal international trade in general has created greater poverty and inequality I would have to argue that actual poverty is less and that the image of inequality, is a social distortion based on economic growth. The evidence regarding wages does seem to indicate that there has been a general stagnation but keep in mind that free trade does alter production to focus on export related industries. With an export focus economy certain agricultural or service industries will lag behind and wages may fall accordingly. But the new export industries will promote higher wages and again the U.S. Trade Representative's office tells us that these export industries in Mexico have brought up their wages. As for the issue about U.S. job loss, that can easily be countered with the fact that 18 million new jobs have been added in the past decade and that by 2004 unemployment in America was actually lower than it was before NAFTA. Add these facts along with the reality that Mexico's democracy has developed from the one party pre-NAFTA system to the well functioning multi-party political system. The fact is that neo-liberal free trade does have an economic focus but the moral agenda of neo-liberalism is that with economic growth come democratic, environmental and social improvements. Economic growth must be made stable and secure so that these secondary improvements can be made.

The agenda that Paul and others in the global justice movement promote is noble and I have no doubt as to the integrity of their call for economic justice and equality. But the example of our own nation shows that with time consistent economic growth can produce social and environmental programs and improvements. Remember that our own neo-liberal engine for economic growth began after the Civil War during the second half of the 1800's. At that time our industrial forbearers had to carve a stable industrial landscape with the development of railroads, steel mills, automobiles, and energy technology before any substantial social and environmental improvements could be made in the 1930's. We need to give developing nations the same chance to develop themselves into a secure export industry economy before we can expect major social and environmental improvements.

⁵ United States Trade Representative's office; "NAFTA: A Decade of Success"

Paul: Free and Fair is Feasible.

Even though I do not accept neo-liberalism let me also go on record as a supporter of the principles of capitalism. James is correct in defending a free market system as an economic engine for generating wealth. Where James and I differ is that he and other neo-liberals make an assumption regarding the generation of wealth and its just distribution. For myself the history of our national experiment with neo-liberalism in the late 1800's offers a different lesson. Our nation experienced this great growing wealth and the impoverished of our nation again lacked the benefit of this growth. Our own Catholic Church reflected on this when Pius XI wrote the 1931 encyclical *Quadragesimo Anno*.

Towards the close of the nineteenth century, new economic methods and new developments of industry had in many nations led to a situation wherein the human community appeared more and more divided into two classes. The first, small in numbers, enjoyed practically all the comforts so plentifully supplied by modern invention. The second class, comprising the immense multitude of workingmen, was made up of those who, oppressed by dire poverty, struggled in vain to escape from the straits which encompassed them.⁶

With the advent of the Great Depression and the growth of communism many promoters of social justice turned to political leaders who would scrap neo-liberalism for a regulated capitalist economy with a human face. Thus it was that Franklin Roosevelt came unto the scene bringing government programs that would ensure economic distribution without eliminating market growth. The economic program that would oversee a distributive form of capitalism would not be neo-liberalism but Keynesianism.

The lesson of the 1930's-1970 is that some form of regulated capitalism that can distribute access to labor and capital does not bring economic growth to an end. In other words economic policies can promote free trade while advocating for fair policies that assures market access to all members of the human community. That is the basis of the global justice movement whose economic model is to promote economic democracy by ensuring free markets while promoting labor employment along with access to capital.⁷

We do not have to wait for a global depression to occur or more devastating acts of terrorism for us to begin to actively promote free and fair trade programs. The global justice movement has created services that can help us as organized consumers to find avenues where we can promote fair trade for goods and services. Transfair USA is a non for profit organization that independently certifies and monitors a whole range of fair trade products including coffee, chocolate, fruit, sugar, tea and rice. The principal criteria of Fair Trade certification are:⁸

- Fair prices for farmers and decent working and living conditions for workers

⁶ Pope Pius XI, *Quadragesimo Anno*, 1931, paragraph 3

⁷ <http://www.globaljusticemovement.org/thirdway.htm>

⁸ <https://www.transfairusa.org/>

- Direct trade with farmers, bypassing middlemen
- Free association of workers and co-ops, with structures for democratic decision-making
- Access to capital
- Sustainable agricultural practices including restricted use of agrochemicals

One can go into the Transfair USA website to find these fair trade products in the local communities. Similarly institutions as a whole can engage in adopting and promoting fair trade policies. Equal Exchange, a for profit corporation that integrates the value of fair trade in its products, offers an interfaith program for religious communities to have their own fair trade products.⁹

Fair trade exists and it continues to generated profits that can benefit all stakeholders of production rather than an elite number of shareholders. International trade can promote fair trade policies that broaden the distribution of this wealth. The 8th Day Center for Justice offered 8 benchmarks for future fair trade negotiations. I list the basic aspects of these benchmarks, whose details can be found at the 8th Day Center website under their *Free Trade Statement*.¹⁰

1. Human Right (UN) Standards
2. Labor (ILO) Standards
3. Community Consultative Process
4. Respect for the local democratic process (No Investors - State Dispute Mechanism)
5. Equal Market Access Strategies
6. Policies that protect those who will be Marginalized
7. Economic Sustainability policies
8. Environmental Protections

James: My advice: go ahead and take microeconomic fair trade liberties but stay away from macroeconomic fair trade policies.

I have no problems with individual consumers and consumer groups developing fair trade policies like the ones you mentioned through Transfair USA or Equal Exchange. In fact I believe in this because it is decision like those that help promote the demand needed to truly alter the supply side of economic growth. On the other hand I am apprehensive towards any artificial regulations that you recommended for international trade negotiations. The 8 benchmarks you recommend are artificial regulations in that they are not indicative of the market's consumer demand. For myself the greatest threat of the global economy is not the revolt of a marginal few who refuse to access the market system but a massively inflated economy that could end economic growth and can cause global depression.

In my opinion, if you allow trade negotiations to be fundamentally free from artificial regulations and you organize the consumer base to create a demand for what you call "fair trade" products then you have created an incentive for industrial engine that

⁹ <http://www.equalexchange.com/interfaith-program>

¹⁰ <http://www.8thdaycenter.org/aboutus/statements.html>

supplies the products to want to adopt fair trade production. This is the basic premise of the invisible hand of capitalism. The problem with artificial regulations to the market is that they do not accurately know if there is a demand for “fair trade” products that may be more costly than the average consumer is willing to pay for. You claim to accept capitalist market principles in the form of Keynesianism or the Third Way model (whatever that is),¹¹ if that is the case then remember these two basic principles, without economic growth you have no wealth to distribute and without an actual consumer demand then all you have is a bunch of worthless “fair trade” products which automatically kills your economic growth.

Free trade has created massive GDP growth in China and India since the 1990’s.¹² Now critics have argued that China and India have horrible labor and environmental conditions. The fact is that these nations already had horrible labor and environmental standards. That was not a result of international trade. What was a result of international trade was our awareness of horrible labor and environmental conditions. China and India are competing for foreign direct investment and a positive image on the world stage. These nations now have the incentives through the international trade machine to raise its labor and environmental standards in order to ensure that foreign multinationals will continue to invest in their nations. Notice the Chinese miracle:

Though the Chinese leaders still maintain that China is a communist state, they have, in fact, completely redefined the term. Tax rates have been slashed (and in some regions are actually lower than those of the United States), industries have been privatized, labor markets have been freed in relative terms, housing ownership is encouraged and growing, and joint ventures with Western companies are increasing rapidly.¹³

I’m not sure I would go out of the way to say that trade agreements like NAFTA or CAFTA are perfect. But they at least assure the potential for progress since they succeed in promoting economic growth. I am very cautious in adding too many artificial regulations that may cripple any real trade and GDP growth (because the average consumer is just not willing to pay \$25 dollars for a pound of coffee vs. \$5). Again I have no problem with organizing consumers to create a demand for “fair trade” products. I end this argument by quoting from an organization that I do not ascribe to but with whom I agree regarding free trade agreements:

Whatever criticisms one may make of Central America policies, all remain committed to electoral democracy, open markets, and peaceful political systems. An acceptance of partnership with them may help to rebuild the foundation of

¹¹ Try to find the similarities between these three “third way” sites

<http://www.thirdway.org/>

<http://www.cesj.org/thirdway/thirdway-intro.htm>

http://www.ppionline.org/ppi_ka.cfm?knlgAreaID=128

¹² The CATO Institute offers studies on economic growth and social development in Asia:

<http://cato.org/economicliberty/>

¹³ <http://www.freetrade.org/pubs/briefs/tpb-002.html>

“Free Trade and Human Rights: The Moral Case for Engagement” by Robert A. Sirico

Latin America policy for the next president while rejection of them could damage the foundation beyond repair... And it is why Congress, accepting that neither CAFTA nor any trade agreement will ever be a perfect one, should approve it.¹⁴

This last reflection was from the Progressive Policy Institute, a progressive think tank for democrats that includes Third Way economic policies.

Passionist Theology Reflection “The Wisdom of the Cross”

As we see from these reflections, free trade has evolved into complex arrangements affecting the lives and well-being of many nations. It presently dominates the relationships between the northern and southern hemispheres, especially in our western hemisphere portion of the world.

Relationship is an apt way of identifying the core of free trade, or, indeed, of any trading procedure. These relationships are not just recent international concerns. They have been to the fore as long as peoples have been aware of other peoples, willing to barter and exchange one type of goods or products for another.

The brothers of Joseph were quick to take advantage of the caravan of Ishmaelites coming from Gilead, “their camels laden with gum, balm and resin.” (Gn 37:25), trading him to them, for “twenty pieces of silver,” an ominous harbinger of the deal Judas made with the chief priests to hand Jesus over to them (Mt 26: 14-15). In the Middle Ages the spice trade prospered between Europe and the Far East. The Portuguese Vasco De Gama touted India as a source of this valued commodity; Christopher Columbus held out promise to European businessmen of a rich spice resource in the New World.

In 1625 the Dutch West India Company utilized its trading skills to purchase what is now New York City from the Manhattan Indians – reputedly, for some brightly colored glass beads. Fur traders began to deal with Canadian and American Indians, in exchange for firearms and alcohol. After the war of 1812, the Yankee Clipper became a famous sailing vessel, known for its speed in expediting cargo across the waters, including slaves from Africa.

This bit of cursory history suggests that trading is endemic to humankind. It is not an artificial contrivance foisted on us humans. Rather it seems to be an outgrowth of what we are all about. Trade is built on “the work of human hands” (offertory prayer at mass). It depends on men and women’s ability to express ourselves with the raw materials at hand, to fashion attractive or useful products appealing to others, and capable of securing, in return, items of equal worth or value.

Trade is a relationship. Unlike conquest, trade implies a mutual respect and recognition of the value of someone else, at least in terms of the products he or she makes available. There is an element of mutuality, and, indeed, of equality, in trade. A sense of the dignity of another is an implication of trade.

¹⁴ Edward Gresser, *The Progressive Case for CAFTA*; July 2005

However this theoretic equality of exchange suffers from the reality of an unequal world, where those who have greater access to power and resources dictate trade on a different level than others. In these cases the benefit of trade does not seem to spread out evenly to all. Certain statistics indicate that while some benefit greatly from trade other do not benefit at all. For us this raises a grave concern with regard to the lack of dignity that is supposed to be inherent in trade.

God was quick to notice this propensity of ours. So He struck a deal. It became the greatest trading event of all time: the Incarnation. To revert to the offertory prayer at mass: "...may we come to share in the divinity of Christ, who humbled himself to share in our humanity." We seem to have outfoxed God in this exchange.

This is undoubtedly why the Vespers Antiphon toward the beginning of the church year (January 1st) exclaims: "O marvelous exchange! (O admirable commercium!)... We have been made sharers in the divinity of Christ who humbled himself to share in our humanity."

At the heart of this trade is relationship: between God and us. Not only does God recognize our worth, He respects what we have to offer, and wants to share it. Even more, He is willing to level the playing field between us, granting us a certain equality with Himself by exchanging gifts with us.

This sets a standard for us to emulate in our other trading practices, whether NAFTA, CAFTA, or any other agreements to emerge in the current developing globalization process. While no nation wants to suffer as a result of a trade agreement, hopefully it does not seek to make another nation suffer as a result of an exchange favorable to itself. International trade can be a force in building respect among nations, and in fostering an equality that expresses the dignity of each.