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THE ETHICS OF TRADE POLICY IN CATHOLIC POLITICAL ECONOMY

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[Increased international trade characterizes economic globalization. Three views of such trade can be found in Catholic political economy. (1) From the 1930s to the mid-1960s: a strong defense of free trade. (2) From the mid-1960s to the mid-1970s: suspicion of free trade as exploiting poorer nations. (3) From the 1990s to the present: free trade as a "mixed blessing." The author concludes that overall freer trade benefits both poor and rich countries, in spite of some adverse consequences.]

GLOBALIZATION IS AN OBVIOUS SIGN of the times. African students in Zimbabwe watch the American soap opera *Sunset Beach*, buy Nike swoosh-labeled caps, and regularly see the latest Hollywood films—*Titanic* was a big hit; some of them saw it three and four times. Thomas Mapfumo and Oliver Mutukudzi CDs are available at American music stores, U.S. automobile manufacturers use platinum mined in Zimbabwe in catalytic converters, and art galleries in Europe and the U.S. exhibit and sell Zimbabwean stone sculpture.

But what is globalization and how is one to evaluate it? According to a recent World Bank "Briefing Paper," globalization refers to the increasing economic exchanges between people in different nations. The three obvious forms are trade (see my examples just cited), foreign direct investment (e.g., by Heinz Foods in Zimbabwe, by BMW in the United States), and "capital market flows" (e.g., U.S. investments in the Zimbabwe Stock Exchange, Zimbabweans purchase of U.S. treasury bonds).[1]

My article focuses on the first form of globalization, namely, increasing international trade. Critics do not see much good in freer trade: Imports from low-wage countries destroy high-paying manufacturing jobs in the

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[1] http://www.worldbank.org.htm/extdr/pb/globalization/paper1.htm (accessed 6/28/2000).

United States. Rather than increased exports benefiting poor countries, such exports only increase the number of poor country workers who are exploited. Such workers are paid subsistence wages and are forced to work long hours in unsafe factories, often enough subject to brutal and inhumane treatment by bosses. Orthodox economists have long claimed that most people benefit from free trade. But the critics reply forcefully that the opposite holds true: almost everyone loses except the multinational corporations whose profits swell as they escape their domestic social responsibilities by moving factories overseas. The title of a recent book by Pat Buchanan reflects this perception: *The Great Betrayal: How American Sovereignty and Social Justice Are Being Sacrificed to the Gods of the Global Economy*.[2]

What do the classic texts of the tradition of Catholic social teaching say about international trade?[3] In particular, what ethical criteria are applied to evaluating it; what conclusions has the tradition drawn as it read the signs of different times? And, in a spirit of furthering inquiry, I ask whether what Catholicism says about trade is defensible in view of other classic and contemporary interpretations. Specifically I argue that free international trade is ethically justified by the principles of the Catholic social tradition, and that some criticisms have been based on misinterpretations of how international trade functions, especially misinterpretations of how it contributes to the international common good. Likewise, freer trade does not as a general rule destroy good jobs in the importing countries, nor does it necessarily or ordinarily hurt poor country workers. And freer trade does help persons obtain more of the material goods they need in order to live decent human lives.

THE CATHOLIC VIEW OF TRADE AND THE COMMON GOOD

Catholic social teaching is value-saturated and God-centered. It seeks to discern God's purposes in creation as the basis for humans' obligations to one another. The crown of creation is said to be humans created in God's image and therefore bearers of an intrinsic dignity and value. Created by

[2] *The Great Betrayal* (Boston: Little, Brown, 1998).

[3] My article is selective in the published sources that it examines: *Rerum novarum* (1891), *Quadragesimo anno* (1931), Pius XII's 1941 Christmas Address, and his 1948 talk "Christian Principles of International Trade," *Mater et magistra* (1961), the *Pastoral Constitution on the Church in the Modern World* (1965), *Populorum progressio* (1967), *Octogesima adveniens* (1971), the statement of the first Synod of Bishops' *Justice in the World* (1971), the U.S. Bishops' letter, *Economic Justice for All* (1986), *Solicitudo rei socialis* (1986), *Centesimus annus* (1991), and the U.S. Bishops' Statement, "A Call to Solidarity with Africa" (November 2001). I have omitted reference to *Pacem in terris* (1963) and *Laborem exercens* (1981) because a word search revealed no references to "trade," in the sense of international trade.

God, all humans form one all-encompassing global family or global community. Material creation has been given to humans to sustain their lives and to help them to fulfill their God-given capacities and potentials. The resources of the earth (human ingenuity, land, minerals) have been given by God to provide for the material needs of every human being, excluding no one. Everyone therefore has an inalienable claim on these resources. Economic structures and arrangements (e.g., property regimes, production and exchange systems, financial institutions) must assure as a first priority that every person's basic material needs are fulfilled. This tradition thus speaks of the essential ethical aim of the global community as "the global common good." This aim implicitly includes a norm of distributive justice: God intends that all persons receive what they need in the way of material goods and other services in order to grow and flourish as humans. The corollary of the imperative to serve the global common good (i.e., every person's good) in a world in which 1.2 billion people (22%) live in "absolute poverty," commonly defined by the UN and others as living on less than one U.S. dollar per day,[4] makes poverty alleviation ("a preferential option for the poor") the highest priority.

The material resources of the earth are widely scattered about the globe: only some locations have oil, only some have forest resources, only some grow cereal crops, only some pasture flocks, only some produce certain fruits, only some have fish resources. Furthermore, as the human community developed settled agriculture (the situation reflected in the early chapters of the Book of Genesis), production of food surpluses relieved some people of the necessity of spending their lives obtaining food, as had been the case in the hunting and gathering stage. These workers freed from food production developed the arts and crafts of pottery and basket making, bread baking, cloth making, and so forth. Such specialization necessitated exchange between the different specialists, most obviously artisans traded their products with farmers for food. Such specialization therefore necessitated exchange or trade in order to achieve God's purpose of providing for everyone's material needs. Jacob Viner shows how the doctrine that he terms "the universal economy" "has claims to be the oldest and longest-lived economic doctrine we know of."[5]

Thomas Aquinas commented on trade most extensively in his treatise *De Regno.* He argued that a city should be self-sufficient in food, since self-

[4] Kofi Annan, "We the Peoples: The Role of the United Nations in the Twenty-First Century," *The Millennium Report* (New York: United Nations, 2000) http://www.un.org/millenium/report/key.htm (accessed 4/8/00).

[5] Jacob Viner, *Essays on the Intellectual History of Economics*, ed. Douglas A. Irwin (Princeton: Princeton University, 1991) 42. See also chap. 2, "Providential Elements in the Commerce of Nations," in Viner's helpful monograph, *The Role of Providence in the Social Order* (Princeton: Princeton University, 1972) 32–54.

sufficiency indicates greater perfection, provides greater safety, avoids harmful foreign influences, and avoids encouraging an occupation that tempts to avarice. In spite of these objections to widespread trade, some trade, Aquinas conceded, is necessary to assure provision of necessities because no one location is supplied with all it needs, and different places have some resources in such abundance that they would be wasted if not traded: "Still trade must not be entirely kept out of a city, since one cannot easily find any place so overflowing with the necessities of life as not to need some commodities from other parts. Also, when there is an overabundance of some commodities in one place, these goods would serve no purpose if they could not be carried elsewhere by professional traders. Consequently, the perfect city will make a moderate use of merchants."[6]

The connection between provision for everyone's needs (sometimes referred to as "universal destination")[7] and trade is alluded to by Pope Pius XI in *Quadragesimo anno*: "Further it would be well if the various nations in common counsel and endeavor strove to promote a healthy economic cooperation by prudent pacts and institutions since in economic matters they are largely dependent upon the other and need one another's help" (no. 89).

TRADE IN MODERN CATHOLIC SOCIAL TRADITION

How Catholic social justice tradition has treated the topic of trade at different times in the past 100 plus years reflects not simply bare principles, but also a reading of the signs of several different times during which principles were applied. I detect three broad periods, each with different views on trade. First I give a brief summary of the periods, then I discuss them in some detail: (1) From the 1930s to the mid-1960s free trade was strongly defended (as reflected in *Quadragesimo anno* no.89). Besides the argument from basic principles, Pius XI and Pius XII had observed the disastrous consequences of the collapse of world trade during the Depression in the 1930s. John XXIII and the Fathers of Vatican II saw the restoration of freer trade after World War II as a vital factor in postwar European economic recovery. (2) From the mid-1960s until the mid-1970s a deep suspicion grew that the trade relations between rich nations and poor nations were not the solution to mass poverty, but actually a cause

[6] Thomas Aquinas, *On Kingship, to the King of Cyprus*, trans. by G. B. Phelan, rev. with an introduction and notes by I. Th. Eschmann (Toronto: Pontifical Institute of Mediaeval Studies, 1982) 75–78. See also *Summa theologiae* 2–2, q.77, a. 4 where Aquinas gives a defense of the merchant earning moderate profits because of the useful services he provides. Irwin treats Aquinas's views on trade in *Against the Tide: An Intellectual History of Free Trade* (Princeton: Princeton University, 1996) 18–19.

[7] John Paul II, *Centesimus annus*, chap. 4, "Private Property and the Universal Destination of Material Goods."

contributing to poverty. (3) In the 1980s and 1990s a more favorable view of trade emerged based on the success of the export-led development strategy of the so-called "newly industrializing countries" in Asia. But during this same period, trade came to be criticized on the grounds that it was unfair to workers in economically developed countries who lost their jobs because of cheap imports, and unfair to economically developing country workers exploited by low wages and brutal, unsafe working conditions (the "sweatshop objection"). This third phase has seen trade as a mixed blessing, in some respects, a positively good thing for poor countries and, in some respects, quite bad. The harm resulting from the widespread arms trade was expressed strongly in both the second and third phases.

Advocacy of Freer Trade (1930s—mid 1960s)

Post-World War II defenses of free trade appealed to the bitter and tragic history of economic relations between the First and the Second World Wars, especially during the Great Depression of the 1930s. The Depression was exacerbated by the collapse of world trade. The worldwide Depression tempted nations to solve their immediate unemployment problems by blocking imports of goods and outflows of capital, and by devaluing currencies to stimulate exports and to discourage imports. These short-term remedies proved in aggregate to be disastrous. Each nation disadvantaged by its neighbors' efforts to solve it local problems felt justified in retaliating with like measures. The Smoot-Hawley Tariff enacted by Congress in 1930 made the United States a prime offender in this destructive cycle. The volume of world trade plummeted during the 1930s and greatly compounded the severity of the worldwide economic slump. The economic conflicts contributed to the animosities that led to World War II.

World leaders planning for postwar reconstruction read the signs of their times and determined to apply the lessons learned during the terrible interwar years. Peace terms must be restorative not punitive (as had been the terms of the Versailles Treaty). A world organization with real powers to deter military aggression and, if necessary, to respond to it should be established (the United Nations and in particular its Security Council). Institutional arrangements both to promote trade by reducing tariff and other barriers and to promote poorer nations' economic development needed to be established. The latter economic aims led to establishing the three so-called "Bretton Woods" institutions: the International Bank for Reconstruction and Development (the World Bank), the International Monetary Fund (the IMF), and the General Agreement on Tariffs and Trade (GATT).[8]

[8] Douglas Irwin, *Free Trade Under Fire* (Princeton: Princeton University, 2002) 158–64.

The connections between free trade and peace, and trade wars and shooting wars seemed evident from recent history. As Cordell Hull, Secretary of State under the administration of Franklin Roosevelt in the 1930s, observed succinctly: "unhampered free trade dovetailed with peace; high tariffs, trade barriers, and economic competition with war."[9]

Pius XII in his 1941 Christmas Address, "Christianity and the World Crisis," articulated the necessity for freer trade in the new postwar moral order he called for. "Within the limits of a new order founded on moral principles, there is no place for the cold and calculating egoism which tends to hoard the economic resources and materials destined for the use of all to such an extent that nations less favored by nature are not permitted access to them."[10]

His address entitled "Christian Principles of International Trade," delivered on March 7, 1948, to the Italian Congress for the Study of International Commerce, contrasted the disruption of trade and commerce in the recent past with God's providential design for free trade: "None is in a better position than you to appreciate the contrast between the disorder in the field of economic relations—which has reigned in many countries for some time past—and the law, order, and harmony that God has imprinted on all creation. The goods of the earth, whose exchange ought to stabilize and maintain economic equilibrium among nations has become the object of political speculation."[11] In that address he went on to observe that in the postwar situation, the nations devastated by war are not able to trade, but are simply recipients of aid. This is not what should be. The normal relation between nations is one of mutually beneficial exchange (trade). Pius XII also observed that: "what remains of economic relations between nations is, strictly speaking no longer an exchange, the mutual action and reaction of which could do good everywhere. . . . Despite noble efforts, we are still far from a normal state of things, wherein exchange of goods between nations is at one and the same time the necessary complement to their respective national economies and a tangible sign of their flourishing condition."[12]

[9] Cordell Hull, *Memoirs*, 2 vols. (New York: Macmillan, 1948) 81, quoted by Irwin, *Free Trade* 159. The link between free trade and peace has been a staple of reflections about the effects of trade. See Viner, *Providential Role* 32–54, and Irwin's *Against the Tide: An Intellectual History of Free Trade* (Princeton: Princeton University, 1996) 15–25.

[10] Pope Pius XII, "Christianity and the World Crisis," in *The Major Addresses of Pius XII*, vol. 2, *Christmas Addresses*, ed. by Vincent Yzermans (St. Paul, Minn.: North Central, 1965) 45.

[11] Pope Pius XII, *The Unwearied Advocate: Public Addresses of Pope Pius XII*, vol. 1, ed. by Vincent A Yzermans (St. Cloud, Minn.: St. Cloud Bookshop, 1956) 241–42.

[12] *Ibid.* 242.

The same pontiff noted disagreements about how trade is best promoted by means of global free trade, or regional free trade arrangements and/or bilateral trade agreements between particular nations. He was critical of complete free trade, which he characterized as "a return to the world economy as was practiced during the last century."[13]

As Paul Samuelson and William Nordhaus noted in their popular introductory economics text, free trade in the 19th century (really from 1880–1913) made use of the gold standard. Each country's currency was defined in terms of gold and, therefore, gold served as a common currency. Trade deficits had to be made up by shipments of gold. In theory, a loss of gold bullion would not hurt a country's domestic economy if wages and prices fell in sync as the money supply contracted. If the money supply contracted by 10% due to gold shipments to cover a trade deficit, and prices and wages also fell by 10% nothing much would have changed in the domestic economy. Granted prices for exports would be lower and imports more expensive, but this would tend to reverse the gold flow as more exports were sold and fewer imports purchased.[14]

Unfortunately, the real world did not operate according to this model. As Irwin explains, workers resisted the lowering of nominal wages. And so while prices fell, wages remained high causing businesses to lose money. In turn they laid off workers. This vicious cycle especially characterized England in the late-1920s and the early-1930s.[15]

Pius XII was correct, therefore, in his implied rejection of a return to the 19th-century trade regime. The Bretton Woods currency regime was constructed precisely to avoid the problems of trade under the gold standard.[16] But the problems the pope refers to as the 19th-century system lay here and not in the general principle of free trade. The economic logic that makes free trade agreements advantageous between blocks of countries, implies that expanding such trade to include all countries is even more advantageous. If regional free trade pacts promise to be temporary measures on the way to even freer trade, they are justified. The fear, however, is that they will not be simply temporary, but will divert trade instead of create trade. The end result would be a loss of the potential benefits achievable by even freer trade.[17]

[13] *Ibid.*

[14] Paul Samuelson and William Nordhaus, *Economics*, 14th ed. (New York: McGraw-Hill, 1992) 712–13.

[15] Douglas Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton: Princeton University, 1996) 190–93.

[16] For a sketch of the Bretton Woods monetary system, see any introductory economics textbook. Samuelson and Nordhaus treat the topic in *Economics*, chap. 39, "Exchange Rates and the International System," esp. 715–17.

[17] See Irwin, *Free Trade Under Fire* 174–78.

Toward the close of his 1948 address Pius XII noted the contradiction between promoting one's own exports while hindering imports from others. The ability to export (dependent on the absence of trade barriers) is referred to as a "natural liberty": "We preferred not to speak of the fatal inconsistency of those who, in proposing free world traffic for their own goods, deny to others this natural liberty."[18]

The phrase "natural liberty" is a reference to the 17th-century natural law philosophers. According to both Suárez, a Catholic, and Grotius, a Protestant, international trade should be free, not so much because of natural law precepts (we have seen the case for so arguing on the basis of universal destination), but those of the *jus gentium*, which specify how natural law precepts have come to govern the relations of nations.[19] Douglas Irwin quotes Suárez:

> A state might conceivably exist in isolation and refuse to enter into commercial relations with another state even if there were no unfriendly feeling involved, but it has been established by the *jus gentium* that commercial intercourse shall be free, and it would be a violation of the system of law if such intercourse were prohibited without reasonable cause.[20]

The reconstruction of the international order after World War II, in particular the Bretton Woods monetary system agreed to in 1944, and the General Agreement on Tariffs and Trade negotiated in Geneva from April to October 1947, greatly encouraged the revival of trade in the 1950s and 1960s.[21] The devastated economies of West Germany and Japan experienced dramatic recoveries. During this period the so-called West German "economic miracle" took place. World trade increased greatly. The United States economy grew steadily; inflation was low; productivity increased at a good rate, and real incomes, therefore, grew annually.

Toward the end of this period, during the late 1950s and early 1960s, the former colonies of Great Britain, France, Holland, Belgium, and Germany gained their independence. The issue of how these former colonies could overcome poverty and achieve prosperity became a major concern—a concern that was to remain central to Catholic social teaching from this time onward.

John XXIII's encyclical *Mater et magistra* (1961) called "the relationship between economically advanced commonwealths and those that are in the process of development the most pressing question of the day" (no. 157). The economically developed countries enjoy a high standard of living while all the others "experience dire poverty" (no. 157). He advocated monetary

[18] *Ibid.*

[19] See Irwin, *Against the Tide* 22–23.

[20] Irwin, *ibid.* 22, quoting *De Legibus, ac Deo Legislatore* (1612), in *Selections from Three Works of Francisco Suárez, S.J.*, vol. 2 (Oxford: Clarendon, 1934) 347.

[21] For a brief account of GATT, see Irwin, *Free Trade Under Fire* 159–70.

and technical aid to poor countries, but observed that such outside help was not the ultimate answer to their poverty. These countries needed expertise and investment capital to develop their then underdeveloped economies. The root causes of poverty John XXIII identified "for the most part . . . are to be found in the primitive state of the economy" (no. 163). He encouraged the rich nations in the name of the "solidarity" of the human family to assist the poor countries. Among the measures advocated were freer movement of goods, capital, and people (no. 155). This encyclical also advised economically developing countries both to study how the rich nations had managed to become rich, and to implement policies to produce "more efficiently," and to insure that the new wealth generated was distributed fairly (nos. 167–68).

Many of the countries that experienced rapid economic growth from the 1960s to the present such as Hong Kong, Taiwan, South Korea, Malaysia, Thailand, and Singapore, adopted an export-oriented strategy that forced their firms to be internationally competitive rather than the import-substitution strategy that protected from competition by means of trade barriers so-called "infant industries." An export-oriented strategy assured that industries would indeed be efficient, low-cost producers because only as such could they successfully export. The economic growth in many of these newly industrializing countries has also been accompanied by a relatively equitable distribution of income gains.[22]

Vatican II's *Pastoral Constitution on the Church in the Modern World, Gaudium et spes,* noted as characteristic of the times growing relations of economic interdependence between nations (no. 63). The document urged that when making investment decisions, investors should try to choose businesses and projects to help relieve the poverty of economically backward countries and regions (no. 70). The Fathers of the Council noted that technological developments and increased trade assured a more effective meeting of the expanding needs of the whole human community: "progress in the methods of production and in the exchange of goods and services has made the economy an instrument capable of better meeting the intensified needs of the human family" (no. 63).

Suspicions about the Ill-Effects of Trade on Poor Countries (Mid-1960s to Mid-1970s)

Catholic social teaching through the mid-1960s, along with most economists and statesmen, judged, as we have seen, freer trade as essential to the economic recovery of the war-shattered nations and to the progress of the

[22] World Bank, *The East Asian Miracle* (New York: Oxford University, 1996) chap. 1, "Growth, Equity and Economic Change," 27–77.

economically developing poor nations. Paul VI's *Populorum progressio* (1967) marked a major shift in the treatment of trade. This encyclical which took as its subject the development of the poorer nations, shared the disappointment common to many observers in the 1960s at the slow pace of economic development in poor countries. The widespread perception was that although the economies of Western Europe and Japan had been successfully rebuilt and relatively quickly, no such "miracles" were general among economically developing countries. While advanced economies seemed to be growing at a rapid pace, poor countries lagged behind. With time the gap between rich nations and poor nations, therefore, grew larger rather than smaller. This seemed to Paul VI to be the results produced by the international economic system when, left to its "natural" workings, "the hard reality of modern economics left to itself works rather to widen the differences in the world's levels of life, not to diminish them: rich peoples enjoy rapid growth whereas the poor develop slowly" (no. 8).

This pattern (if indeed it was the general pattern) was contrary to the common understanding of the relative pace of economic development between rich and poor. It was expected that as poor countries put unused resources, especially of labor, to work, they would experience rapid economic growth. Advanced economies which were assumed to be close to full employment could only grow by making current workers more productive. This was judged likely to produce less rapid growth than applying previously unused resources to productive purposes.

What was the problem? Why were poor countries lagging behind? Trade relations between rich and poor countries seemed to be at the heart of the problem. Many newly independent countries had previously been used by colonial masters as cheap sources of primary mineral and agricultural products. The prices of such products are very responsive to the economic cycle, falling rapidly during slow-downs, and rising rapidly during recoveries. In *Populorum progressio*, Paul VI wrote: "It must certainly be recognized that colonizing powers have often furthered their own interests, power, or glory, and that their departure has sometimes left a precarious economy, bound up for instance with production of one kind of crop whose market prices are subject to sudden and considerable variation" (no. 7).

He specifically addressed the issue of fair trade relations in nos. 55–61. This treatment of trade is the most specific and extensive on the topic heretofore in the modern tradition. The observations made here on trade clearly reflect the criticisms developed by the United Nations Economic Commission for Latin America. According to this commission, development efforts there had failed to spark rapid economic growth. Masses of people remained mired in poverty. The systematic articulation of reasons for why capital investment and freer trade had not promoted economic development came to be know as "dependency theory."[23] Paul VI read this neo-Marxist criticism of mainstream development and trade theory as a sign of the times to be taken seriously.

In particular, he pointed to the possibility that the good effects of even generous development aid (for example, the Kennedy administration's Alliance for Progress) might be undone by unfavorable trade relations. Pope Paul VI accepted the common dependency school analysis that rich countries exported high-value manufactures (whose prices were high and tended to increase steadily) to poor countries in exchange for low-value primary commodities (raw fiber, unprocessed mineral ores, raw agricultural products) whose prices fluctuated and tended to remain low over the long-term. If this were the general case, the terms of trade of poorer countries would fall. Overall then, such unbalanced trade would make rich countries richer and poor countries poorer.[24]

Paul VI's treatment of trade marked a sharp departure from the favorable view of trade that had characterized prior Catholic social teaching. He did not deny the universal destination argument for trade, but neither, as far as I can tell, has it been seen again in later social teachings.

After *Populorum progressio*, free trade was not viewed in itself as a good thing and part of God's providential design but was viewed as suspect. Whatever the theoretical justifications for freer trade, in practice free trade was seen as likely to harm poor countries. The claim about the damaging effects of trade is, of course, an empirical one. One should be able to test it, although not easily, since an individual country's economic performance is due to many and varied factors. As I illustrate later, considerable hard evidence exists for the proposition John Paul II eventually acknowledges: countries that trade prosper more. If the "trade hurts poor countries" view of dependency theory were true, severing economic relations with the rich countries would be a helpful strategy for poor countries. Logically, exploited poor countries that isolated themselves would, at the very least, escape damaging exploitation. Being marginal to the world economy would

[23] Even basic specialized dictionary articles show that under this broad rubric, authors took quite different approaches to the diagnosis and prognosis for Latin American economic underdevelopment. The gist of the strongest form of the theory argued that economic underdevelopment was no accident but the result of unequal and dependent relations between "core" rich countries and "peripheral" poor countries. Rich countries trade manufactured goods for primary commodities and minerals. As Jon Hendrick's survey notes, it was Andre Gunder Frank who in *Capitalism and Underdevelopment in Latin America* (1967) and *Latin America: Underdevelopment or Revolution* (1969) formulated "the premise for dependency theory," namely, "contemporary underdevelopment is a result of an international division of labor exploited by capitalistic interests." Jon Hendricks, "Dependency Theory," *Encyclopedia of Sociology*, 2nd ed. (2000).

[24] See Paul VI's discussion in *Populorum progressio* no. 57.

be a good thing for a poor country. Current development thinking takes the completely opposite view: economic prosperity is correlated (at least) with engagement in the global economy.[25]

In *Populorum progressio* Paul VI went on to reject free trade as the sole norm that governs international economic relations. Between nations matched in economic power, free trade has overall good results. Major economic differences, however, lead to unjust bargains. Apparent free bargains are not really free. Even on the supposition that prices are established in markets with many buyers and sellers, the results may be unfair:

> In other words, the rule of free trade, taken by itself, is not longer able to govern international relations. Its advantages are certainly evident when the parties involved are not affected by any excessive inequalities of economic power: it is an incentive to progress and a reward for effort. That is why industrially developed countries see in it a law of justice. But the situation is no longer the same when economic conditions differ too widely from country to country; prices which are "freely" set in the market can produce unfair results (no. 58).

Earlier in the same encyclical the pope referred to a passage from *Rerum novarum* (nos. 34–35) regarding wages. The norm of a just wage as a living wage adds something, I believe, to the "coercive bargain" objection. Even if workers are truly enthusiastic about their wage, fiercely denying that they are coerced, the employer would do them an injustice if they were not paid enough to support their families in modest comfort.

Paul VI went on in *Populorum progressio* to observe how economically developed nations frequently intervene to prevent the unchecked workings of markets by promoting or protecting certain sectors. Thus to insure adequate incomes for farmers, production limits, guaranteed minimum prices, and other measures are commonly legislated. The effect of such measures is often to redistribute income from consumers and taxpayers to farmers:

> Advanced nations . . . attempt to reestablish within their own economies, a balance, which competition, if left to itself, tends to compromise. Thus it happens that these nations often support their agriculture at the price of sacrifices imposed on economically more favored sectors (no. 60). Other industries that are faltering may receive government assistance to insure their survival: "the financial, fiscal and social policies . . . try to restore comparable opportunities to competing industries which are not prospering (*ibid.*).

Here Paul VI was suggesting that as governments intervene in their national economies to modify the workings of the free market, such market

[25] See e.g. the World Bank's annual *World Development Reports* for the past ten or more years. See also the United Nations' *Millennium Report* (2000) and Oxfam's March 2002 report, *Rigged Rules and Double Standards: Trade, Globalization, and the Fight Against Poverty* in http://www.maketradefair.com (accessed 5/27/2002).

modifying interventions are needed at the international level. One aim would be to establish "equal opportunity" between rich and poor nations. He reasoned that international agreements, negotiated with equal participation of strong and weak nations, are essential to making international economic arrangements fair. These agreements would regulate prices (perhaps of commodities and minerals whose prices fluctuate), would assure the survival of particular industries, and would target investment to promising new industries. "[I]nternational agreements on a rather wide scale would be helpful; they would establish general norms for regulating certain prices, for guaranteeing certain types of production, and for supporting new industries" (no. 61). The most famous example of a producers' group that set output quotas to assure certain prices is the Organization of Petroleum Exporting Countries (OPEC). Agreements covering other commodities (tea, coffee, tin) have been tried off and on again.[26]

The underlying claim of the pope is that somehow just prices resemble just wages. A just wage is a wage sufficient to meet a family's needs. Just prices, then, may be thought of as prices for exports high enough to assure that sellers (in this case poor countries) can meet everyone's basic needs. To me this seems to be what is implied by this line of argument though I do not find it explicitly spelled out. Paul VI envisioned supplementing market processes (not excluding them completely) in order to establish "end of the day" just results: "Without abolishing the competitive market, it should be kept within limits which make it just and moral, therefore human" (*PP* #61).

Octogesima adveniens, written by Paul VI to commemorate the 80th anniversary of *Rerum novarum*, continued to draw attention to international dimensions of politics and economics. He called for a more just sharing of goods both within nations and between nations. He criticized those international relations in which strong nations force weaker ones to do their will. The correct principle is mutuality, which takes account of all affected. Individual nations must promote their own development in ways they choose themselves. Yet nations stand in relations of mutual dependence and can usefully assist one another. Cooperation rather than either political or economic compulsion ought to characterize these relations (no. 43).

Paul VI claimed in that encyclical that current international economic relations were in need of reform: "Thus it is necessary to have the courage to undertake a revision of the relationships between nations, whether it is a question of the international division of production, the structure of exchanges, the control of profits, the monetary system . . ." (no. 43). He

[26] See "Commodity Agreements," *Dictionary of Development* (1990 ed.), for a brief overview of the concept and history, mostly of failed agreements.

also noted the central role that multinational corporations play in breaking down national barriers by producing and selling in many different countries. He expressed the fear, common for the times, that because of their enormous size and financial resources such corporations operated beyond the control of individual nations. Since the guardians of the common good are national governments, Paul VI concluded that these corporations functioned without regard to the common good. They posed the threat "of a new and abusive form of economic domination on the social, cultural, and even political level" (no. 44). Implicit in the criticism of multinationals may be a suspicion about the benevolent effects of increased trade. For multinationals' vertically integrated production processes, in which final products include components produced in different countries, account for a significant portion of world trade.[27]

Paul VI noted the positive contributions exchange and trade can make to building bonds between people: "Economic activity is necessary and if it is at the service of man, it can be a 'source of brotherhood and a sign of Providence.' It is the occasion of concrete exchanges between men, of rights recognized, of services rendered and of dignity affirmed in work . . . it can give rise to dialogue and foster cooperation" (no. 46). He thus identified himself with the venerable tradition that saw in trade a realization of God's providential intent that diverse and scattered humans come together in friendship.[28] But in the light of his earlier criticisms of trade it would seem that good consequences of trade would be few and far between. Such a creative juxtaposition, not untypical of other examples of official Catholic Church teaching, of logically incompatible arguments, or arguments pulling in different directions, shows both are worthy of consideration.

While comments on international economic relations in *Octogesima adveniens* were rather general, the document of the Synod of Bishops, *Justice in the World* (1971) endorsed the specific goals concerning aid and trade of the United Nation's Second Development Decade. Rich nations were asked to contribute .7% of their GDP to development assistance. Furthermore, the UN called for increased prices for commodities exported by poor countries, removal of rich country trade barriers, and special treatment of poor countries' exports of manufactures (e.g. complete tariff waivers or much lower tariffs). The latter two recommendations implied that increased trade, at least of manufactured goods, benefited economically developing nations. The recommendations were consistent with dependency theory's criticism of the then current patterns of trade. They suggested a definite change in the assumed pattern: higher rather than falling prices for

[27] See Irwin, *Free Trade Under Fire* 13–16.
[28] See earlier references to Viner's work and Irwin's *Against the Tide*.

commodity exports, and a switch from only such exports to higher-value manufactures.

If I have correctly read *Octogesima adveniens* and *Justice in the World* on trade issues, it is best to see them as providing a transition to the third reading of trade signs of the times.

Freer Trade as a Mixed Blessing (Mid-1970s to Present)

I see what might be called a "mixed blessing" view regarding trade as characteristic of the third view of trade which continues to this day. In view of the success of export-led development strategies, trade can be beneficial to poor countries. But it still contains perils, both for displaced rich country workers and for exploited poor country workers. Also, some forms of trade: for arms, drugs, babies involve items whose purchase and sale damage the common good of human dignity. Further, in Africa, especially, trade in oil, diamonds, and other precious minerals have funded repressive governments and/or civil wars. I see the mixed blessing view in John Paul II and in the U.S. Bishops' *Justice for All* and *Call to Solidarity with Africa.*

John Paul II's complaint in *Solicitudo rei socialis* about free trade in arms in the face of trade barriers against poor countries' exports reflects the mixed blessing view. Trade is vital to poor nations' development, yet the arms trade wastes scarce resources and fuels armed conflict. Tragically and ironically, beneficial trade is blocked, while the arms trade is free: "We are thus confronted with a strange phenomenon: while economic development plans meet with the obstacle of insuperable ideological barriers and with tariff and trade barriers, arms of whatever origin circulate with almost total freedom all over the world" (no. 24).

The favorable attitude to trade may be the result of attending to the economic progress of the so-called "newly industrializing countries." Their export-oriented strategy (rather than the more common import-substitution approach) clearly had borne fruit in high rates of per capita economic growth sustained over many years. For example, South Korea's economic performance over the past 35 years had been dramatic. Donald Sparks discussing Africa's relatively poor economic performance noted that in 1957 Ghana was richer than South Korea. However, by 1997 South Korea's economy was 80 times larger than Ghana's. He links this dramatic contrast to differences in trade volumes. Between 1965 and 1995 Ghana's exports grew fourfold, while South Korea's grew fourhundredfold, both in current U.S. dollars.[29] South Korea's startling growth rate sounds like something from a Gospel parable about the miraculous growth of the

[29] Donald L. Sparks, "Economic Trends in Africa South of the Sahara, 2001," in *Africa South of the Sahara 2002*, 31st ed. (London: Europa, 2001) 12.

kingdom of God. The "purchasing power parity" comparison of per capita GNP is much less dramatic, but significantly in favor of South Korea. In 1999 Ghana's GNP per capita was $1,793, while South Korea's was $14,637, over eight times greater. [30] In the 35-year period millions of South Koreans had moved from absolute poverty to a decent standard of living.

Such successful trade-driven economic development implied that barriers to economically developing countries' exports were gravely unjust. John Paul II in the same encyclical called for a "reform of the international trade system" to allow freer trade. The barriers to trade that he asked to be reformed were "protectionism" and "increasing bilateralism" (no. 42). "Bilateralism" refers to free trade agreements between two countries which makes their trade freer, but maintains barriers against the other nations not party to the agreement. "Multilateralism" is preferable because multilateral agreements open trade to all countries. No privileges are granted to some countries and not to others. The technical term for such non-discrimination is "most-favored nation" status. The term is confusing inasmuch as it seems to imply the opposite, namely trade discrimination, whereas the "most-favored nation" norm requires that the best deal a country might agree to in bilateral negotiations be extended to all nations. Hence, it is a principle of non-discrimination.[31]

John Paul II goes on specifically to object to trade rules that block both the manufactured and the commodities' exports of economically developing countries. In particular, trade in textiles and trade in agricultural products were heavily controlled in 1986 when the pope was writing. And while the Uruguay Round of GATT negotiations completed in December 1993 did, in principle, liberalize trade in these products, both the European Union and the United States have been slow actually to implement freer trade in these areas.[32]

In the context of his specific remarks on trade policy, John Paul II also noted what has become what I call the "sweat shop objection" to freer trade. The appearance of such remarks in the context of a strong defense of freer trade suggests that whatever the general case for freer trade, it does not apply to products of exploited workers.

The "sweat shop objection" to free trade is that some workers in economically developing countries are paid wages many times lower than those of economically developed countries with no fringe benefits, and

[30] World Bank, *World Development Report 2000–2001: Attacking Poverty* (New York: Oxford University, 2001) 274.

[31] The commitment to nondiscriminatory trade policy was the first article of the 1947 General Agreement on Tariffs and Trade. See Irwin, *Free Trade Under Fire* 161–62.

[32] Ibid. 179–84.

forced to work long hours in unsafe conditions with no protection from unfair, even brutal treatment. Because wages are so low, owners make very large profits. They can exploit workers in such countries because these countries lack labor laws or, if they have them, they do not enforce them. The pope wrote in his encyclical: "There exists, too, a kind of international division of labor, whereby the low-cost products of certain countries which lack labor laws or which are too weak to apply them are sold in other parts of the world at considerable profit for the countries engaged in this form of production, which knows no frontiers" (no. 43).

One response to this situation could be for rich countries to bar these products (or to discriminate against them by tariffs) unless, or until, the offending employers improve wages and working conditions. If these employers do increase wages and benefits, they may no longer have any advantage over rich country companies. In some cases, production might return to the home country. In others, jobs may be saved up front because manufacturers would have no reason to move jobs overseas in the first place. This issue of job-destroying trade and what to do about it was a central concern of the U.S. Bishops' 1986 economics pastoral. Later I will treat the sweat shop objection further. It is understandable that organized labor, concerned as it must be about job losses, wants future trade agreements to include minimum labor standards.

As I noted in passing earlier, John Paul II observes in *Centesimus annus* that countries that chose an export-oriented development strategy achieved greater economic progress than those that adopted a strategy of relative economic self-sufficiency by producing for the domestic market:

> Even in recent years it was thought that the poorest countries would develop by isolating themselves from the world market and by depending only on their own resources. Recent experience has shown that countries which did this have suffered stagnation and recession, while the countries which experienced development were those which succeeded in taking part in the general interrelated economic activities at the international level (no. 33).

The pope concludes that because of trade's role in promoting development, barriers to imports of economically developing countries are unjust: "It seems, therefore, that the chief problem is that of gaining fair access to the international market . . ." (no. 33).

The 1986 U.S. Bishops' Pastoral Letter *Economic Justice for All* expressly treated trade as a major element in its discussion of the relations between the United States and economically developing nations. The core principle guiding these relationships must be the preferential option for the poor. They identified trade as one of the five ways in which their country could and should help poorer nations. The others were greatly increased development assistance, debt forgiveness, increased foreign investment, and food security assurance.

In his recent survey of Catholic social teaching, Charles Curran claims that the U.S. bishops reject free trade and advocate debt relief, both in the name of distributive justice: "On the basis of distributive justice, the economics pastoral opposes free trade and supports international debt relief for poor nations."[33] On one reading of what the bishops wrote, they were in favor of trade (perhaps the problem is the concept of "free" trade). For they acknowledge the important role that trade has played in the great economic progress that some countries have achieved: "It [trade] contributed in a major way to the rapid economic growth of many economically developing countries in the 1960s and 1970s and will probably continue to do so . . ." (no. 267). The bishops go on to assert that a fair trading system that actually helps the poor will assure economically developing countries "fair prices" for their exports including exports of raw materials. Such prices would be those agreed to by both exporting and importing nations, while being high enough to assure a "reasonable degree of profit" (no. 267). If fair prices are understood to be like fair wages, wages sufficient to guarantee provision for a certain level of need, then free trade, subject as it is to the contingencies of supply and demand, will not assure this. However, since trade does benefit poor countries, and since barriers to trade block such beneficial trade, the bishops must be advocating *freer* trade if not free trade pure and simple.

The U.S. bishops further note that trade relations between economically developed and economically developing countries generate opposed claims of what justice requires. Poor nations assert that trade barriers are unfair to them, while workers whose jobs and/or income are threatened by freer trade claim that such trade is unfair to them: "Trade policy illustrates the conflicting pressures that interdependence can generate: claims of injustice from economically developing countries denied market access are countered by claims of injustice in the domestic economies of industrialized countries when jobs are threatened and incomes fall. Agricultural and a few industrial sectors present particularly acute examples of this" (no. 268).

Here the bishops are reflecting further the "mixed blessing" view of trade. They see U.S. workers, especially unionized workers, as threatened by freer trade. And they associate that threat with exploitative labor conditions due to limits on unions' rights in the economically developing countries (no. 108). This is the "sweat shop objection" noted in John Paul II's *Solicitudo rei socialis*. The bishops wonder if investors are attracted to make certain investments overseas because workers are low-paid precisely because they are exploited (no. 269). They seem to urge that the United

[33] Charles Curran, *Catholic Social Teaching 1891–Present* (Washington: Georgetown University, 2002) 197.

States should insist that trade rules assure fair treatment of poor workers, especially protection of their human rights: "The United States should do all it can to ensure that the trading system treats the poorest segments of developing countries' societies fairly and does not lead to human rights violations" (no. 269).

The general suggestion that the bishops made for the United States in GATT negotiations to push for trade rules that would help poor countries was beneficial. In fact, the Uruguay Round began the process of liberalizing trade in textile and agricultural products, products that poor countries can or do produce.

The bishops also advocated assistance, including retraining, for those workers of rich country who lose their jobs because of imports from economically developing countries. Rather than protect jobs by trade barriers which would help some U.S. workers—but at the expense of poor country workers—U.S. workers should receive help to retrain. Most trade economists and other commentators agree that the proper response to loss of jobs from trade is effective help for displaced workers to move into the new jobs created in a growing economy, including new jobs in successful U.S. exporting firms. The bishops criticize the trade adjustment programs in place in the mid-1980s as neither well-thought out or implemented, nor adequately funded (no. 270).

The statement of the U.S. bishops "Call to Solidarity with Africa" (November 14, 2001) treats trade issues in some detail. The focus on Africa, rather than the "third world" as a whole, shows an appreciation that not all economically developing countries face the same challenges. The newly industrializing countries of Asia, as already noted, have made great economic progress, and this, in large part, because of increased trade. No such progress characterizes the sub-Saharan countries. With some notable exceptions (i.e., Botswana and Mauritius), these countries have not experienced rapid economic growth and increased volumes of trade. In fact, more than a few are poorer now than when they achieved independence in the late 1950s or 1960s. Today the preferential option for the poor makes Africa a special subject of concern. Thus the measure of U.S. trade policy toward Africa must be its effects in helping reduce the poverty of Africa's poorest (p. 12).

The bishops note that most of what needs to be done to promote African economic development, including ending wars, achieving political stability, and establishing accountable, honest governments committed to the rule of law, can only be achieved by Africans themselves (though donors can help by making aid conditional on progress toward these goals).

The U.S. bishops are aware of the evidence, quite abundant and unambiguous by 2001, that increased trade is vital to increased economic growth in poor countries. Hence they advocated removing barriers to African exports. In particular, they advocated removing barriers to agricultural products. The bishops mention in particular the problem of high European tariff barriers to African agricultural products. Had they been writing during the summer of 2002, they would doubtlessly have criticized the U.S. farm bill that increased government subsidies to farmers by more than $80 billion over the next ten years. Such subsidies for U.S. farm products have the effect of restricting agricultural imports and badly distorting worldwide trade in the products subsidized. The United States has long criticized the subsidies of the European Union's Common Agricultural Program as prime obstacles to greater exports from economically developing countries. Subsidies nullify the cost advantages to poor countries and result in greater production that drives down world market prices for products they manage to sell. The U.S. farm bill has added to the problem of subsidies and undermined U.S. credibility as an advocate of freer trade.[34]

The U.S. bishops specifically mention that trade policy must include standards regarding labor, environment, and human rights in order to achieve "the requirements of social justice" (p. 12). They recommend that new trade agreements should take account of the views of both African governments and non-government groups. Economically developing countries, including African countries, are on record as strongly opposed to linking labor, environmental, and human rights standards to trade rules.[35] This position is reasonable from their point of view. They fear that given the strong resistance to freer trade among well-organized interest groups in rich countries, such standards would be used as excuses to stifle their exports. This is not to say that protections regarding improved labor, environment, and human rights are not needed, but only that tying them to trade rules is unlikely to promote the essential goal of liberalizing trade but only to retard it.[36]

The Holy See's contribution to the Fifth World Trade Organization Ministerial Conference in Cancún, Mexico, in September 2003 reflected the mixed blessing view of free trade. The Holy See strongly affirmed the Doha Round's commitment to trade rules that promote development of poor countries. The statement noted the important role that trade has played in promoting economic development: "History demonstrates that ensuring some amount of free exchange of goods and services is indispensable for development and peace." But it insisted that free trade must be

[34] See David E. Sanger, "Reversing Course, Bush Signs Bill Raising Farm Subsidies" http://www.nytimes.com/2002/05/14/politics/14BUSH.html (accessed 5/14/2002).

[35] Robert Gilpin, *Global Political Economy* (Princeton: Princeton University, 2001) 231. Disagreement over this issue caused the 1999 Seattle WTO talks to collapse.

[36] Irwin, *Free Trade Under Fire* 210. For this difficult issue see Irwin's whole treatment of both so-called "core standards," e.g., slave and child labor, and broader "economic standards," e.g., minimum wages, hours, safety standards (ibid. 209–25).

subordinated to promoting the genuine human development of all countries and all their citizens. This statement does not completely endorse free trade because it judges this not necessarily to be in the interest of poor countries: "Even if trade were completely free, there is no guarantee that free trade would be the best policy for all poor countries." This judgment apparently follows from the claim that free trade is clearly mutually beneficial only between economically equal parties. The Holy See observes that declining prices for raw commodities in which poor countries specialize, mean that rich countries benefit more than poor countries: "poor countries presently gain substantially less from free trade than do industrial countries." It recommends opening the markets of rich countries to products in which poor countries "have strengths or competitive advantages," without requiring them to open their own markets.[37]

Here the lesson may be the practical necessity of delicate and difficult trade-offs in trying to achieve social justice overall in the world. The priority of helping the poorest of the poor speaks, in my opinion, for freer trade unburdened by labor, environmental, and human rights standards. But committed people can surely disagree on this point.

Assessment of Catholic Social Teaching on the Ethics of Trade

For economists, the advantages of free trade seem obvious. They depend simply on the basic logic of specialization (workers will make *better* and *more* products if they concentrate on what they do well). They will then exchange with other specialists the products they produce to obtain the other needed goods. All workers will end up with more of the goods and services that they need for a decent life if they specialize and trade. And as was pointed out in calling attention to the connection between trade and the universal destination of material goods, some of the differences in what producers specialize in are due to the varied climates and resource endowments of different parts of the globe. Trade is necessary for people to obtain the goods and services that God intends that they have for a decent life.

The goal of providing for the material needs of all human beings ("universal destination") makes specialized work and trade the most effective means to meeting these needs. A worker (or country) specializes in wine

[37] www.educationforjustice.org (accessed 12/302003. The mixed blessing view of trade also characterized press articles commenting on the history of ten years of free trade involving the United States, Mexico, and Canada initiated by the North American Free Trade Agreement (NAFTA). See, for example, Tim Weiner, "Free Trade Accord at 10: Growing Pains Are Clear," *New York Times*, 27 December 2003. www.nytimes.com/2003/12/27/international/americas/27NAFT.html (accessed 12/30/2003).

production, for example, as a means to obtaining by exchanges bread, clothes, shelter, and so forth. People exchange their special product in order to obtain all the other goods they need. In the language of trade relations, a bread maker "exports," if only next door to the wine maker in order to "import" wine.

So far the reasoning may perhaps seem absurdly simple. The economist would point out that there is no reason, given these observations, to treat exchanges within a nation differently than exchanges across national boundaries. The logic for such exchanges is the same.

How can trade work for poor countries—especially when they may have no obvious superiority in producing any tradable products? Why would anyone trade with them except to exploit them? Economists would answer that the benefits of trade are based on "comparative advantage" an insight attributed to David Ricardo. He treats the topic in chap. 7, "On Foreign Trade" of his *Principles of Political Economy and Taxation*. Evidence exists that Ricardo actually borrowed this insight from James Mill.[38] A country has "comparative advantage" in whatever it is best at producing ("best" is defined as lowest cost, highest quality), or whatever it is least worst at doing. The latter condition is counterintuitive, but it is the definition of the term "comparative advantage."

An example may clarify this notion. Let us assume that the United States may be the best producer of both software and computers, but it is better at software than computers. Taiwan may be the best producer of neither software nor computers, but it may be less bad at producing computers, i.e., its cost disadvantage may be less in computers than in software. Under these conditions, if the United States specializes in software and Taiwan in computers, it will be advantageous to both the United States and Taiwan. The United States will have more software and more computers if it trades software for computers from Taiwan than if it produces both software and computers. Taiwan also will end up with more software and computers if it trades computers for software than if it tried to produce both computers and software. To construct an elementary example in the spirit of those given in economics texts to illustrate comparative advantage, I might be a better philosopher and a better typist than my student assistant. But we will both benefit if I specialize in teaching philosophy to him and he specializes in doing my typing. We are both better off than if I both taught philosophy and typed, and he both typed and tried to teach himself philosophy.[39]

[38] Irwin, *Against the Tide* 91.

[39] As Irwin observes, James Mill formulated the basic insight about comparative advantage "with tremendous clarity" in these two simple sentences: "When a country can either import a commodity or produce it at home, it compares the cost of producing at home with the cost of procuring from abroad: if the latter cost is less

The benefits of trade are understood in terms of the difference between trade and no-trade outcomes. Because of comparative advantage (it is not present only in the unlikely case when the margins of advantage and disadvantage are the same for both parties), each is absolutely better off with trade in that each has more of both goods than if no trade had occurred. The more economically advanced partner may well end up with quite a lot more of both goods than the less advanced partner. But "improvements" are understood to mean the increases in amounts of each good gained by both parties when they trade, compared to the amounts they would have it they did not trade.

I believe that universal destination as a norm of distribution calls for everyone to have the absolute amount of goods and services that they need for a decent life. As long as all people have what they need for a flourishing life, the universal common good is realized. The preferential option for the poor is about poverty alleviation and this is, first and foremost, about an adequate minimum for all. Providing an adequate minimum does have distributive implications when some do not have enough *because* of the surpluses of others.

Given the advantages of free trade, trade barriers are economically damaging and ethically unjust. A trade barrier (tariff, quota, subsidy, etc.) prevents beneficial trades. Textile quotas or tariffs, for example, prevent people from buying clothes at the lowest price. They must pay more than they need to pay. And just as increases in real incomes make people richer, so do decreases in the prices people have to pay. And as an economist might say, "at the margin" the higher price for goods due to trade barriers means some poor people have to do without what they could have had. Trade barriers aggravate, rather than alleviate poverty. This simple insight explains why for much of the 19th and 20th centuries organized labor and the Democratic party favored freer trade. Republicans, the party of big business, through most of its history supported trade barriers.[40]

But what about the jobs lost in industries facing the competition of cheap imports? Jobs indeed are lost. Again, however, as the basic logic of free trade implies, this cannot be the whole story. For a nation's imports must be paid for by its exports (unless other countries are willing to support its consumption by exporting capital to it). When U.S. customers purchase textile and electronics imports from overseas, the exporting countries earn

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than the first, it imports. The cost at which a country can import from abroad depends, not upon the cost at which the foreign country produces the commodity, but upon what the commodity costs which it sends in exchange, compared with the cost which it must produce the commodity in question if it did not import it" (James Mill, *Elements of Political Economy* [1821], quoted by Irwin, *Against the Tide* 91).

[40] Irwin, *Free Trade Under Fire* 148–51.

U.S. dollars and in turn import goods made by U.S. companies that are low-cost producers. So Taiwan buys Microsoft programs and Boeing jets with the U.S. dollars earned from computer exports. As imports increase, jobs are created in export-oriented sectors and lost in import-competing sectors. After surveying the evidence, Irwin concludes that trade has no net effect on the total number of jobs: "In fact, the overall effect of trade on the number of jobs in an economy is best approximated as zero."[41]

Trade does have distributive effects. Trade barriers redistribute income from consumers to workers in protected industries. These barriers also retard job creation in efficient, exporting industries as fewer imports translate into fewer exports. Job creation in industries that use imported materials or components is also adversely affected.

But does not freer trade cause the loss of high-wage manufacturing jobs? Douglas Irwin presents evidence that shows the exact opposite: trade promotes high-paying manufacturing jobs and eliminates lower paying jobs:

> The perception that imports destroy good, high-wage jobs in manufacturing is almost completely erroneous. It is closer to the truth to say that imports destroy bad, low-wage jobs in manufacturing. This is because wages in industries that compete against imports are well below average, whereas wages in exporting industries are well above average. The United States tends to import labor-intensive products, such as apparel, footwear, leather, and goods assembled from components. Comparable domestic industries in these labor-intensive sectors tend to employ workers who have a lower than average educational attainment, and who therefore earn a relatively low wage. For example, in 1999 average hourly earnings of Americans working in the apparel industry were 36 percent lower than in manufacturing as a whole. Average hourly earnings were 30 percent lower in the leather industry and 23 percent lower in the textile industry than in the average manufacturing industry.[42]

Workers displaced by imports do deserve help in retraining for new jobs. But Irwin questions the fairness of assistance for such trade displaced workers when the far greater numbers displaced by technological changes receive no help.[43] One reason for trade adjustment assistance is to help generate political support for freer trade. Even though there may be some unfairness in giving special support to such workers, the overall benefits of freer trade may make this price worth paying. The overall lesson to be drawn, however, is that all displaced workers, whatever the cause of their displacement, should be helped to get new jobs, and be provided the sup-

[41] Ibid. 71.

[42] Ibid. 92. Irwin notes that the steel and auto industries are exceptions: high paying industries that have required strong protective measures (ibid. 93–94).

[43] He cites a Bureau of Labor Statistics study which reports that rising imports caused "only 1.5 percent of the total employment separations due to mass layoffs during the period 1996–1999" (ibid. 100).

port they need until they find work. Of course, essential to lifetime employability are broad skills and general education that enable workers to adjust to new jobs. And better education, including postsecondary education, is essential if workers are going to be qualified for the knowledge-centered and service-centered jobs that the U.S. economy generates.

The U.S. economy is a wonder of the world for its ability to create new jobs. But associated with a great increase in net jobs is a significant process of job destruction. One member of a panel of stock market analysts discussing in January 2002 prospects for the economy in the coming year observed:

> In the 1980—2000 period, the United States economy created 75 million new jobs. And at the same time it eliminated 44 million in the old economy sectors—the steel, auto, basic industry sectors—and created the new jobs in technology and biotechnology, other fields, the Home Depots and Intels. Europe during the same period created 5 million new jobs. And they were all in the public sector.[44]

What about the "sweatshop objection" to freer trade: that jobs in export sectors overseas are low-paid and dangerous, and use child labor. Some such jobs surely are dangerous and some owners are brutal. But it is the responsibility of national governments to protect their workers by wage and hours laws, safety regulations, and labor laws that recognize the rights of workers to organize unions and to bargain collectively for wages and working conditions. At the worldwide level the International Labor Organization's mission is to negotiate international standards and to get governments to agree to them and to implement them. As I have argued, to add labor standards to trade agreements would threaten freer trade and would not be an effective way of improving workers' conditions.

On the question of low wages overseas, Irwin claims that the evidence is that they mostly reflect low labor productivity. The experience of the newly industrializing countries of Asia shows that workers' productivity has improved and in line with this their wages have improved.[45] Also, in very poor countries, large numbers of adults have no formal sector employment. Their choice is not between a poorly paid sweatshop job and a well paid job, but between a poorly paid job (at least by our standards), or no job at all. Children who work and do not go to school will not suddenly be back in school if they are prevented from working in sweatshops. The only fair way of judging the situation of workers overseas is in terms of the actual alternatives they themselves face. As Irwin reminds us, most children who work in poor countries do not work in manufacturing firms that export. If

[44] "Wall Street's Prescriptions in a Convalescing Economy," *New York Times*, 2 January 2000, C8.

[45] Irwin, *Free Trade Under Fire* 209–15.

those who did were forced out of these jobs, they might end up far worse off:

> Only about 5 percent of working children are employed in the export sector in developing countries. An import ban might simply shift them to other sectors of the domestic economy (about 80 percent are employed in the primary agricultural sector). At worst an import ban could push them into less desirable or more hazardous work, or even leave them with no work and thus condemn them to starvation.[46]

Irwin refers to an article by reporters for the *New York Times*, "Two Cheers for Sweatshops." The authors, Nicholas D. Kristof and Sheryl Wu Dunn, report their change of heart about sweatshops after talking to workers themselves:

> Fourteen years ago, we moved to Asia and began reporting there. Like most westerners, we arrived in the region outraged at sweatshops. In time, though, we came to accept the view supported by most Asians: that the campaign against sweatshop risks harming the very people it is intended to help. For beneath their grime, sweatshops are a clear sign of the industrial revolution that is beginning to reshape Asia.

They acknowledge that some employers treat workers wretchedly. And they think pressure to promote safe work places is called for. But they still conclude that sweatshop products should not be boycotted because in spite of their shortcomings, these jobs do contribute to workers' overall well-being: "But Asian workers would be aghast at the idea of American consumers boycotting certain toys or clothing in protest. The simplest way to help the poorest Asians would be to buy more from sweatshops, not less."[47]

CONCLUSION

Both principle (universal destination) and practice (the historical evidence of trade's contribution to poverty alleviation) lead contemporary Catholic political economy to advocate freer trade between nations, a view that characterized the tradition through the mid-1960s. The pessimistic view of trade that prevailed from the late-1960s to the mid-1970s dissolved in the face of powerful evidence for trade's role in economic development and consequent poverty alleviation. The reservations concerning displaced rich country workers and exploited poor country workers can be answered (at least in part if not completely) by adjustment for displaced rich country workers and by attending to the improved conditions for poor country workers.

Free trade follows from the principle of universal destination. For given the varied distribution of resources, climates, and human skills among the

[46] Ibid. 217–18.
[47] *New York Times Sunday Magazine*, 24 September 2000, 70–71.

places and peoples of the earth, provision for all requires specialization according to what people do best, or paradoxically, least worst—and trade. The principle of comparative advantage shows how such specialization and trade can improve the economic situation (compared to not so specializing and trading) of both rich and poor. Such specialization and trade also realizes a prudent stewardship of the earth's resources. For production according to comparative advantage and trade, devotes these resources to their most productive uses.

For the Catholic tradition of political economy, improving the desperate condition of the impoverished masses takes priority. Trade, however, helps relieve not just the material want of the poor, but also their marginalization, even exclusion, from the global economy. When people, rich and poor, specialize in what they are relatively better at doing, both rich and poor are of help to one another; both contribute to relieving the other's want and to improving their material provisioning. In this process of mutual assistance that occurs through international trade, the diverse peoples of the world are bound together in peaceful and mutually beneficial relations. People in economically backward countries benefit both as consumers and workers. And workers in rich countries who may lose their jobs because of such trade can be and should be helped to retrain for new jobs, if at all possible, and provided income support if they cannot be retrained. The exploitation of poor country workers is a genuine problem. But the best hope of poor country workers lies in greater economic development powered by more extensive trade. Trying to help poor country workers by tying labor and environmental standards into future trade agreements threatens to burden trade rather than to free it. For poorer countries will not agree to such standards, and in the consensus based international trade regime they have the right to veto such measures. Such a conflict between rich and poor countries over adding such standards to trade agreements can only harm freer trade and hurt the alleviation of poverty.

Such is the strongly positive case based in the Catholic tradition of political economy for freer trade. I have not discussed all the objections to freer trade. But the genuine objections need to take account of the strongest case. My aim has been to develop a strong case for freer trade that answers some of the reservations about this important and controverted topic. I hope my reflections make a useful contribution to the ongoing discussion.