The Trade Gap: The Fallacy of Anti World-Trade Sentiment

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I. Introduction

Riots and protesters marred the landscape of Genoa, Italy on July 20th, 2001. That day marked the first of a three-day annual summit, representing the world's seven leading industrial nations and Russia, who met to discuss the state of the global economy. The summit itself was mainly unaffected by the protesters, but they did, however, leave a vivid scar on the city.

Such protests are not small isolated occurrences; they take place regularly and represent a growing sentiment opposed to the idea of a "global economy" where goods and resources, including capital and labor, are allowed to flow freely throughout the world. This anti-trade movement is not limited to scruffy protestors, however. It encompasses a growing body of politicians and lobbyists who fight to keep free trade from becoming a world-wide phenomenon.

Though the scope of globalization is very broad and somewhat ambiguous, this paper will center on the globalization of free trade and how and why there is opposition to it. In section II we offer some definitions that will be of help in analyzing this new movement. Section III is devoted to a discussion of tariffs, section IV to infant industries, section V to the claim that trade restrictions are not innovative, VI to "fair" trade, VII to the role of government, VIII to income disparity, and IX to mercantilism. In section X we conclude by considering several objections to our thesis: 1. Ralph Nader and the WTO; 2. unfair cheap foreign labor; 3. the claim that trade restrictions create wealth.

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[1] The authors of the present paper would like to thank two referees of This Journal for their insightful and very helpful feedback on an earlier draft of this paper. One of them went so far as

II. Some definitions

Free trade globalization should be distinguished from the idea of *political* globalization that usually implies a single one-world government with seamless political and cultural borders. Despite the superficially similar terminology, to favor the latter movement would be to favor totalitarian nation building by powerful countries – virtually the very opposite of economic freedom[2].

A clear distinction should also be made between "pro-growth" and "anti-growth" groups. Anti-growth proponents, sometimes called "anti-globalists," oppose unfettered world trade[3] (e.g., Buchanan, 1998). The common arguments for this position include (1) trade with other countries destroys domestic jobs, (2) the industry is vital for national security, (3) temporary trade restrictions help new industries get started, (4) all countries do not play by the same rules, and (5) threats of trade restrictions can help remove trade restrictions already imposed by a foreign government. Pro-growth proponents favor the idea of a "globalized" economy where peoples and nations are free to engage in exchange with any individual, group or business firm from any nation. Such unrestricted trade

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to mark up this version with 54 separate comments, virtually all of which were entirely on the mark, and vastly improved this paper.

[2] Exponents of economic freedom include the following: Friedman, 1965; Gwartney, et. al., 1996; Smith, 1776; Fitzgibbons, 1995; Taylor, 1986; Strokes, 1996; Eckes, 1995).

[3] But what of the objection that we are incorrectly equating anti growth with anti progress? (An anonymous referee of This Journal offers this objection for our consideration). It stems from the claim made by anti market environmentalists that true progress implies less economic growth than would be forthcoming from pure market decision making, since without significant governmental restrictions on excessive growth we will ruin the economy. We answer in two ways. First, this issue is outside the concerns of the present paper. We are not here concerned with the environmental implications of free trade. Implicitly, we assume there are none. That is, we hold ceteris paribus conditions on environmental laws, whatever they are. Whether people produce for domestic or international markets should not have any implications for the ecology whatsoever, as long as the environmental rules are the same in each case. Second, we deny that expanded consumption has a negative effect on the environment. As long as private property rights are strictly upheld (we define these so as to rule out trespassing smoke particles -- otherwise known as pollution, etc.), there should be no negative effects on air or water quality, etc., from increased economic growth. Indeed, the very opposite is the case, in that richer countries invariably have better

based on comparative advantage leads to lower prices for consumers, higher quality products, and greater efficiency in the use of resources and thus a higher standard of living for people throughout the world.

Anti-growth proponents are not only opposed to world trade as such, but also to those individuals and organizations that help facilitate it. The quest for profits is viewed as greed and parasitic, since profits imply that goods are sold for more than the expense associated with producing and distributing them. The displacement and/or geographical relocation of labor and other resources that are not efficiently employed is resisted due to the (short term) hardships incurred by the owners of such resources. Also rejected is the deregulation and privatization of industries on the grounds that the government—not the market—is more efficient in allocating resources to their proper ends.

Profit represents the gap between revenue and expenses. The greater this difference, (a) the greater the value that has been created by the entrepreneur as measured by what others are willing to pay for the product and (b) the more efficiently the entrepreneur has used resources in creating this value. When individuals voluntarily purchase goods, they expect an increase in well-being since the goods acquired are valued more highly than the money paid for them. Competition is the process insuring that prices are as low as possible and, in fact, there is a tendency for competition to drive prices down toward the expenses incurred by the most efficient sellers. Those sellers whose product is valued by buyers less than the expenses incurred to bring these products to buyers will ultimately be forced to reallocate their resources to alternative ends, leading to greater efficiency. The nature of the economic process is to create value for

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environmental amenities because they can afford to care for them to a greater degree. For more on this see Anderson and Hill (1981), Anderson and Leal (1991), Block (1989, 1990), DiLorenzo (1990).

the purpose of satisfying human wants, and efficiency requires that sellers who are only able to generate less revenue (value) than they incur in expenses not be permitted to continue in this vein. To do so would imply that they are creating negative value, which is precisely what losses (negative profits) represent.

Since the government is not driven by a profit motive and has far less relevant information as to the desires of individuals and how to satisfy them than do the millions of individuals voluntarily interacting in markets, resources cannot be allocated as efficiently by government (Hayek, 1944; Hazlitt, 1979).

State officials, argues Robert Tracinshi (2002), "do not have to consider the long-term results – only what is politically expedient. Those opposed to economic growth do not have to back their decisions with their own money or effort – they dispose of the lives and property of others. And most important, they do not have to persuade their victims – they impose their will, not by reason, but by physical force." An often-ignored question is what gives them the moral right to impose their will on others.

III. Tariffs

Take tariffs, a common trade barrier, for instance. A tariff is simply a tax on goods produced abroad and sold domestically. Consider a simple example where the U.S. places a $30 dollar tariff on the purchase of Indonesian shoes. A pair of dress shoes in the United States sells for $80 after taxes while that exact item can be obtained for $50 after taxes in Indonesia. Disregarding any transactions and transportation costs, the $30 tariff would render the purchase of the Indonesian shoes pointless given the fact that the tariff makes them now both sell for $80. This is a simple example, but it holds profound implications for societies that erect tariffs as well as other trade barriers. Why would a country such as the United States want to prohibit its citizens from purchasing a good more cheaply? The answer is obviously to protect the American industry from foreign competition. Though domestic sellers are made better off, consumers in the home country are made worse off. That is, tariffs result in an involuntary redistribution, through the political process, of well being from consumers to sellers. However, because there are typically far fewer sellers of a good than buyers, significantly more people are made worse off by tariffs. Further, the deadweight loss that is a result of both domestic under-consumption of goods on which tariffs are placed and domestic over-production of such goods, both due to the higher prices implied by tariffs, result in a net loss in well being to the entire society.

But this is not the end of the story regarding the question of who is harmed by trade barriers. Since foreign firms sell less in a country that imposes restrictions, foreigners have less to spend on domestically produced goods. Industries with a comparative advantage in countries that impose trade barriers are thus harmed. Therefore, restrictions hurt both domestic consumers of the good on which they are placed and other domestic industries that sell less abroad than they otherwise would. And the situation is made even worse if other nations retaliate by imposing new or additional barriers of their own against us.

While proclaiming the United States to be the world's free trade leader, President Bush in March 2002 imposed the most comprehensive protection in the history of the U.S. steel industry and the biggest anti-trade measure in the U.S. since World War II. This industry has been protected from the global market almost since its inception, has never matured from the supposed "infancy" which was used to justify protection at the outset, and has continually required more and more protection to survive. As a result, consumers have paid higher prices for steel and, ultimately, things made with it. The only beneficiaries of these protectionist measures have been the producers of steel (Saliba and Block).

IV. Infant industries

The infant industry argument clearly cannot apply to steel in the U.S., circa 2002. The steel industry is far too hoary for that. Nor is this argument applicable to selected industries at the exclusion of others. This is because *all* firms (and industries) at their very outset are "infants." They are *all* money losing propositions when first begun. Typically, in the first few weeks or months or even years of existence of a firm, there is no income, only expenses. This is during that period of time when the factory or shop is being built, when the land is being cleared, etc. It is only later, sometimes *much* later, that the first paying customer provides any revenue. And even then, what customers provide in revenue may not be sufficient to cover all expenses during the early stages of the operation. Why then do entrepreneurs purposefully accept these early losses? It is because they estimate that the present discounted value of the later income stream will more than offset the initial investment as well as other expenses. So, if a real infant should be protected by tariffs when it sells internationally, then it should also receive a benefit when it deals in the domestic market,[4] for example, a subsidy. The implication is that *all* businesses at the outset should be financially supported by government through tariffs (or other trade restrictions), subsidies, or monopoly privileges. Not only is this

[4] To deny this is to engage in Mercantilism, the fallacy according to which sales to foreigners is for some reason to be preferred to residents. For more on this doctrine, see Heckscher (1955). For a critique, see Smith (1776).

dubious, but if enacted would lead to inefficiencies found in various industries, such as steel, that have been protected for decades from competition by such policies.

Consider again the "infant industry" argument stating that certain new industries showing promise for future competitiveness merely need protection in their early noncompetitive stage to ensure short-term survival before they become wholly competitive. Milton Friedman writes that the infant industry argument:

> ...is a smoke screen. The so-called infants never grow up. Once imposed, tariffs are seldom eliminated. Moreover, the argument is seldom used on behalf of true unborn infants that might conceivably be born and survive if given temporary protection... It is used to justify tariffs for rather aged infants that can mount political pressure (Krauss, 1997, p. 28-29).

The true test in the market for new industries is found in creation and innovation. Tariffs and governmental subsidies only curb the appetite for such progress. Curbing innovation also results in consumers paying higher costs for a smaller quantity of and/or lower quality goods. Innovative companies such as Microsoft never received protection during their start-up; rather they were financed by venture capitalists who saw potential for success. The chairman and cofounder of Microsoft, Bill Gates, warns, "The pace of computer technology change is accelerating. Every company is going to have to avoid business as usual. The only big companies that succeed will be those that obsolete their own products before someone else does." (Krauss, 1997, p. 29). Even if protection by the government did not curb innovation of industries, how would government choose which industries to subsidize and which to disregard? Government should stand clear and let the marketplace decide which industries will endure and continue doing business and which will fail the test of the marketplace.

V. Trade restrictions are not innovative

Despite the antiglobalist's claim that free world trade is a new convention "imposed on humanity," the push toward an integrated economy, fostered by free trade and unrestricted movements of capital and labor, is an historical movement unavoidably set into motion by virtue of the desire for and the occurrence of human progress and innovation (Shand, 1984, p. 222). It was "unavoidable" as indicated by Austrian economists (Menger, 1950; Callahan, 2002), because humans have a natural propensity to gravitate toward that which makes them better-off. For instance, if country "A" is able to produce and sell a good or service cheaper than country "B," it seems only natural that B would purchase that good or service from A, thus making both countries better-off.

World trade benefits the greater good of humanity, just as "a rising tide lifts all boats." As one nation expands its wealth, all others are made better off in the process. Rising wealth in one or more nations means that people in those countries have greater economic wherewithal to satisfy their wants. To the extent they can obtain goods or services at a lower price abroad, there is an increase in the demand for products produced in other countries. This leads to more employment and therefore greater economic wherewithal in these nations. In turn, their citizens will purchase more from the former countries, and as this process continues, the standard of living of people throughout over the world increases. Thus, rather than amplifying welfare disparity, trade actually reduces it.[5]

VI. "Fair" trade

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[5] See on this Gwartney and Lawson (2000, p. 17, exhibit 8) which shows a positive relationship between economic freedom, including, in significant part, free trade, on the one hand, and income equality on the other.

Some activists do, however, favor a form of international commercial interaction; they call it "fair" trade. That is, they favor trade when its benefits are "properly" directed to people or places. They desire, in effect, a government body to level the playing field by either blocking trade outright or by making it such that tariffs or other trade protection measures distribute the benefits of exchange proportionately to those who "need" these benefits most, as the regulator sees it[6].

But this is subject to a *reductio ad absurdum*: These activists hold the precept that trade results in one party unfairly gaining an advantage over another, and that the greater portion of an exchange should be allocated to the less privileged party. This is similar to saying that a vendor at baseball games is exploited – evidenced by the fact that he sells hotdogs for $2.00. So instead of the buyer paying the normal $2.00 dollars, he should be forced to pay the underprivileged vendor $5.00. The vendor, therefore, would get an extra $3.00 to help compensate for the welfare disparity between himself and the "well-to-do" buyer.

The implicit premise, here, is that consumers should not all pay the same price for goods and services, but rather an amount proportional to their income or wealth. That is, the poor pay $2.00 for hot dog, the middle class, $20, and Bill Gates, say, $2 million. The difficulty is that if this scheme were ever put into practice, it would destroy economic incentives. The additional income Mr. Gates managed to earn, by satisfying consumers to an extent almost unprecedented in the history of business, would avail him no more goods and services than anyone else, no matter how modest their contributions.

[6] In practice, this tends to mean that the people who are able to form the most effective special interest groups would be the main beneficiaries. See on this Dauterive and White (1988), O'Brien and Olson (1990).

Gates might still persevere under such a regimen, but enjoying greater wealth could play no part in any such decision. Rather, it would have to emanate from his benevolence, surely a weaker reed than his present motivations.

Consider the fundamentals of private property rights and voluntary, mutually beneficial exchange. According to Mises (1949, p. 264) private property rights and civilization are "inextricably linked."

In countries under social or centralized control, inherent[7] freedoms are violated through restrictions on private ownership and thus voluntary exchange. These systems can only exist by means of force in order to carry out the reallocation and redistribution of goods, services, and wealth. The conclusion to be reached, then, is the more a given system restricts basic freedoms, or any freedom for that matter, the more it closes itself off to free trade, competition, and thus prosperity.[8] Capitalism is the only system that unequivocally ratifies the rights of life, liberty, and property, such that humans can realize their full potential.

Free and unrestricted trade, opponents argue, benefits only the "big guy" at the expense of the "little guy." This horrendous fallacy flies directly in the face of the basic tenet of voluntary exchange: both parties, by definition, *must* benefit, ex ante. Each party participates in the exchange because he values a particular good or service more than he values what is being given up. So free trade cannot possibly benefit one party at the

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[7] There is a literature that makes the case that property rights are inherently human rights. Perhaps the most dramatic instance of this is Nozick (1974, 161-163) with his Wilt Chamberlain example. According to this author, be the initial distribution of property, income, wealth, etc., ever so fair, unless, also, there are private property rights, then we will not be able to buy tickets to see this wizard dunk the basketball. For if we do, then the distribution will again be skewed, as the people have less money (but more psychic income) and Wilt has more of both. Other philosophers who make the case for private property rights on a deontological basis include Epstein (1985), Hoppe (1993), Rothbard (1982).

[8] For a thorough study of the correlation between freedom and well-being, see Gwartney, et.al, 1996.

expense of the other; free trade cannot possibly benefit one party without *also* benefiting the other.

Take another case. A man is stranded on a desert island and happens upon a vendor selling bottled water for $1,000 per quart. The thirsty man, with few other alternatives, makes the purchase. Is this a fair exchange? Of course it is! The stranded man valued the water he received at that given time more than the $1000 he spent. If he did not, he would not have engaged in the exchange in the first place. The vendor obviously profited because he valued the money he received more highly than the water with which he parted. But the thirsty man *also* profited because he obtained the water for less than the value he placed upon it. *Both* benefit[9].

VII. Role of government

But what of the role of the government in enforcing exchange, the trade opponent may ask? Is the state not more capable of effectively judging value and how it should be allocated? Such statements underscore the mentality of many antiglobalists. They believe governments have the duty and responsibility to determine individual values, sum these across all persons, and use this as a basis for the transfer of the benefits of trade to certain select groups or nations they feel are getting the short end of the stick. Nor for them is there any valid objection to imposing the costs of these activities on the rest of the population.

[9] It is hardly the fault of the vendor that he had the foresight to make water available to those in need of it. This entrepreneur was the first to discover the water hole; surely, a practice we wish to encourage, not discourage. He, we may suppose, drew the thirsty traveler's attention to it, thus, perhaps, saving his very life. The economic incentive of the water vender, moreover, is *not* to charge an "arm and a leg" for water; very few people will patronize his establishment if he does that. Rather, it will inure to his own personal selfish long run benefit to be more "moderate" in his demands, the better to attract a paying clientele. Of course, the traveler might have been better off if he had discovered the water hole for himself, but the same could be said for the buyer of practically any product.

Trade opponents simply fail to accept that exchange is mutually beneficial and makes everyone better off[10]. Or if they do, they choose to ignore it in order to advance their own cause. They argue that world trade exploits poor countries and further "pollutes" not only the planet, but also the minds of people in "unsuspecting" nations with a spirit of capitalism and consumerism[11]. But much of the inconsistency in their argument, however, is rooted in their overall world-view. They favor egalitarianism, at least ostensibly, as an economic and political system. Take income and welfare disparity for example. Rather than recognizing that this disparity is primarily a function of the differences in productivity among individuals and countries, they see the gap that exists between rich and poor peoples and countries as a failure on the part of the market process and the state, believing it should be corrected through coercive redistribution of income. This implies an ever-increasing role for the government to "correct" matters as it chooses. Of course, many of these people do not refer to themselves as socialists or admit their

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[10] Jean Buridan de Bethune (of Buridan's Ass fame) says of trade, "both parties benefit, and … trade is not, as many people believe, a type of warfare in which one party benefits at the expense of another." States Buridan, in a contrary to fact conditional: "Because Socrates gave his wife willingly and with her consent to Plato to comitt adultery in exchange for ten books, which one of them suffered a loss and which one gained? …. Both suffered injury as far as their soul was concerned … (but) with regard to the external good, each gained …" Cited in Rothbard (1995, p. 73). The claim that both parties necessarily gain from voluntary trade must be clarified; this is true only in the ex ante sense of anticipations. Here, it is impossible that there be any other conclusion. If not for mutual benefit, then why would two people engage in trade? It cannot be denied that even after the exchange, one of the parties may be better off than the other, nor that the latter may still be in dire straights. However, the condition of both of them, specifically including the latter must at least be *improved* in their own eyes, otherwise we would be sorely vexed in accounting for their agreement to it. In sharp contrast, there is no necessity that trade be mutually beneficial in the ex post sense. Here, one or both of the trading partners may later come to rue his decision. He may regret that what he foolishly (from the perspective of hindsight) gave up is now worth more to him than what he received.

[11] We here link capitalism and consumerism, despite the view to the contrary of those such as Lippke (1988) who maintains that the former is justified while the latter is not. (We thank an anonymous referee for this citation). We must concede, of course, that the two are by no means the same. Capitalism is an economic system, while consumerism, it is contended by critics, is defined in part as evaluating oneself and others on the basis of their possessions, and not on in some cases more meaningful characteristics. However, it is our contention that even with this concession, consumerism so defined is still part and parcel of laissez faire capitalism, insofar as under that system people would be free to appraise themselves on whatever basis they wished, quantity and quality of possessions specifically included.

Marxist tendencies. They simply use arguments derived from socialism to advance their misguided agenda.

They reject out of hand the philosophy of free market economists like Friedrich Hayek or Ludwig von Mises. They disdain the ideas of Hayek, for example, when he asserts that economic progress is actually in large part dependent upon inequality: "Progress cannot proceed on a uniform front but must take place in echelon fashion with some far ahead of the rest" (Shand, 1984, p. 211); or von Mises when he stated: "The inequality of incomes and wealth is an inherent feature of the market economy. Its elimination would entirely destroy the market economy" (Mises, 1949, p. 840). These statements appear quite consistent to anyone with an understanding of how capitalism works. They understand, in other words, that in order for human progress – a basic aim of human beings – to be fully realized, people must be allowed to function in an environment that does not place restrictions and quotas on their every action. People must, inherently, be allowed to reap what they achieve; otherwise, what would be the ultimate end or reason for action in the first place? The redistribution of wealth and income effectively thwarts much of the incentive to achieve.

VIII. Income disparity

How is this issue of inequality and welfare disparity related to trade? Opponents of world trade (Buchanan, 1998) maintain that such commercial exchange results in rich countries getting richer and poor countries getting poorer. For example, they argue that when rich developed countries like the United States allow for unrestricted trade with, say, Mexico, the United States would inevitably gain at the expense of Mexico. However, Kraay and Dollar (2001) cite evidence indicating an increasing narrowing of the income and welfare gap between developed and underdeveloped countries that trade with one another. Looking back over a 30-year period, these authors give an in-depth analysis of the persistent growth in GDP of developing nations as they opened their borders to trade. They found that these countries actually experienced a 33% increase in GDP while their under developed counterparts isolated from trade experienced a decrease. For example, they claim "Per capita GDP growth in the post-1980 'globalizers' accelerated from 1.4 percent a year in the 1960s and 2.9 percent a year in the 1970s to 3.5 percent in the 1980s and 5.0 percent in the 1990's."

Kraay and Dollar (2001) used the Gini coefficient[12] measure to analyze changes in the degree of inequality experienced by under developed countries that have availed themselves of world trade. The results show that a vast majority of poor nations have lowered the Gini coefficient considerably, implying that the level of inequality has been reduced by trade. In only a few instances, e.g., China, was this not the case. However, in such instances the increased Gini coefficient can be largely explained by "domestic liberalization, restrictions on internal migration, and agricultural policies [that] have played a much larger role than increases in international trade."

Erecting trade barriers is one way to stop the economic globalization trend. Trade opponents, who obviously favor such actions, call on government officials to regulate trade such that the international flow of goods, capital, and labor are prohibited. This misguided agenda contradicts a fundamental economic tenet of trade – barriers to trade make everyone worse off.

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12 The Gini coefficient is equal to the area between the line of perfect income equality (or 45 degree line) and the actual Lorenz curve divided by the entire triangular area under the line of perfect income equality. The Gini coefficient is a number between 0 and 1. A coefficient of 0 means perfect income equality while a number of 1 is equated with perfect income inequality.

Irrespective of whether the American consumer or producer is disadvantaged, however, trade opponents favor protection measures that prohibit a country like the United States from making what is referred to as an undue gain over a country like Indonesia. There are several fundamental flaws with this way of thinking. The foreign country, whether poor or rich, benefits from the simple fact that they are able to sell more goods, i.e. export goods to foreigners, and purchase imports. They benefit not only from increased sales, but also from increased production due to increased demand for their products – resulting in greater employment, and an increase in foreign currency that allows for the purchase of foreign goods. Therefore Indonesia, to use a previous example, would increase its sales and have more U.S. dollars with which to purchase U.S. goods. They would also have a surge in new jobs to meet the increased demand for shoes. The fundamental argument, therefore, is that for one to decry world trade for being coercive and unscrupulous is simply bad economics, regardless of the vantage point.

IX. Mercantilism

Of course there are also those who favor trade barriers believing imports are bad and exports are good, and that domestic jobs are best protected with barriers. This idea was perpetrated by the Mercantilists during the eighteenth century, who favored exports because the nobles could accumulate gold and silver, but decried imports that had to be paid for with these precious metals. They failed to realize that the ability to import goods is the reason to export. That is, the wealth of a nation depends not upon how much gold and silver it has accumulated, but rather on the productivity of its people and therefore their ability to satisfy wants through the consumption of goods, regardless of where these goods are produced.

Altschiller (1988) makes this very argument and explains the inherent flaws in the protectionist arguments. When trade is allowed to flow unrestricted, domestic consumers are able to purchase many goods and services at lower prices, thus generating an overall welfare gain for them. This gain naturally implies more wealth in an economy, which inevitably gives rise to more jobs (Altschiller, p. 56). True, the particular industry that lost out to foreign competition is negatively affected, but the economy as a whole gains. This raises the question: Why should an entire economy suffer for the sake of saving a specific industry that lacks a competitive advantage? As mentioned earlier, this has been the case with the U.S. steel industry since its inception.

Tariffs are but one type of protection measure. There are other forms and under other guises. Anti-dumping laws, quotas, voluntary export restraints, and countervailing duties are but a few used by scores of countries and politicians today, including the United States. Each barrier has a different effect, but ultimately achieves the same result – losses in well-being (i.e., deadweight losses). Deadweight losses are the reduction in consumer surplus from the (a) under-consumption of the good plus (b) over-production of the good due to the higher price that results from protectionist measures (Mankiw, 2001). As stressed previously, unless exchange is non-coerced and unhindered in every way, both parties will not necessarily mutually benefit. This is precisely the case with trade restrictions[13] – one party, and in some cases both, get an unfair deal (Greaves, 1986, p. 31). This idea of trade making everyone better off is particularly poignant in the wake of the September 11th World Trade Center tragedy. This was a vivid reminder of how the

[13] If trade is mutually agreed upon and unforced, both parties necessarily gain thereby, at least in the ex ante sense. But suppose the exchange is coerced by one of the "trading" partners against the other. Then, it by no means follows that both gain thereby. Indeed, while this interaction can be interpreted as a benefit to

actions of individual people motivated by their own self-interest benefited the masses. It is also a vivid reminder of how we all stand to lose through the destruction of trade. Rockwell (2002) adeptly points this out:

> True, the objective of all these merchants and traders may have been their own personal betterment, but the effect of their work was to serve not just themselves but everyone else as well. Because the beneficial effects of trade are not just local but national, and not just national but international, the inhabitants of these buildings were in many ways the benefactors of all of us personally. The blessings we experienced from their work came to us every time we used a credit card, withdrew money from the bank, bought from a chain store, or ordered something online.

Doubtless the world is better off because of trade. We have all profited from the self-interest of entrepreneurs and businesspersons. And the invisible hand, if left unfettered, will continue to ensure this[14]. Yet the free trade movement will almost always be met with stiff resistance by labor, management, and owners in those industries who expect to gain from trade restrictions. And it is to this very end that Mises (1956, p. 112) affirms:

> "An 'anti-something' movement displays a purely negative attitude. It has no chance whatever to succeed. Its passionate diatribes virtually advertise the program that they attack. People must fight for something that they want to achieve, not simply reject an evil, however bad it may be. They must, without any reservations, endorse the program of the market economy."

X. Objections

1. Nader and WTO

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the aggressor, the very opposite is the case with regard to the victim. For example, theft, rape and murder are cases where one actor forces the other against his will in one way or another.

[14] There is a vast "market failure" literature attesting to the claim that Adam Smith's "invisible hand" does not always work. Consult virtually any introductory or intermediate microeconomic or macroeconomic textbook in this regard, but for a classical statement of this claim, see Bator (1958). For a rejoinder, see Cowen (1988).

In 1995, the World Trade Organization (WTO) was created out of what was formerly known as the General Agreement on Tariffs and Trade (GATT). The preamble of the agreement establishing the WTO states as its mission, "...allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development." (http://pacific.commerce.ubc.ca/trade/GATT.html.)

The WTO makes agreements that create legally binding rights and obligations, which have been negotiated multilaterally and approved by all members within the organization. Member parties of the WTO are said to act in the collective interest of all countries involved by liberalizing trade and thus benefiting the entire world economy. Concerns of all domestic interest groups are to be taken into account in every action and agreement made by parties in the WTO. Cases of noncompliance to prior concurrences are settled within the organization, providing both reimbursement and retribution aimed to punish the guilty party.

There are many who believe that the WTO is comprised of mega corporations attempting to evade the democratic processes of governments in order to unethically gain control of an international market share. These people believe that there is conflict between trading policies and those policies related to environmental protection. They worry that attempts by countries to gain international market share will lower environmental standards. They see foreign direct investment taking place in countries that welcome more business at the price of pollution (Sampson, 2000).

For example, Ralph Nader, an outspoken opponent of the WTO, states, "Secrecy, abstruseness, and unaccountability: these are the watchwords of global trading policy-making. Every element of the negotiation is designed to foreclose citizen participation or even awareness" (Nader, 1993, p.3). His argument is that the individual citizen and community member is lost in the policy-making procedure. Nader writes, "Usually, a smaller jurisdiction-a town, city, or state-experiments with a standard, other cities and states copy it, and eventually national governments and international governments, lagging behind, follow their lead. This percolating-up process will be squelched by GATT and NAFTA, with top-down mercantile dictates replacing bottom-up democratic impulses"(Nader, 1993, p.12).

Should the WTO be responsible for what elected and represented governments are there for? Perhaps Mr. Nader forgot the major responsibility of these governments in trade negotiations; their duty is to take into account their public's interests and concerns in every phase of trading. Perhaps he would invite everyone who has a quarrel with international business and advancement to take part in these negotiations, assuring that nothing would ever get done. A better idea may be allowing the elected governments to take part in these negotiations while keeping in mind the interests of those citizens within their borders. If these governments are not looking out for the citizens whom they are representing, then it is only a matter of time before they are deposed or voted out of office. Thus one can be assured that revolt-causing policies will be deterred from the start of negotiations.

However, an even better policy, Nader notwithstanding, is for each government on the face of the globe to unilaterally declare full free trade with every other. This would end the need for continual negotiations, which take on a life of their own, since the cushy jobs of the bureaucrats would end, should economic freedom ever come to reign in the international sphere. In other words, it is reasonable to support the WTO against the far worse policies in opposition to free trade: criticism of this international body from the left is thus untenable. But criticism of the WTO from the right is entirely another matter.

2. Unfair cheap foreign labor

Another argument from free trade opponents deals with the comparative cost of labor between an industrialized country and one that supplies cheaper foreign labor. To better illustrate an example of this controversy, let us consider critics of the North American Free Trade Agreement (NAFTA) and their belief that American labor cannot compete with low wage Mexican labor (Davey, et. al. 1987). Yes, it is true that the cost for unskilled labor in America is much higher than that in Mexico. What critics do not seem to comprehend is that even though many low-skilled labor jobs will be lost to Mexico, many higher-skilled jobs will open as a result. Given the unequal levels of education when comparing the two countries, one should understand that this would benefit both parties in the end. The *New York Times* states, "The purpose of trade is not to raise unemployment or to rack up [trade] surpluses. Its purpose is to steer workers into high-productivity jobs: into computer software production and out of textile" (cited in Krauss, 1997, p. 24). When one argues against NAFTA, it is important to look at both sides of the job redistribution process, rather than only one. Underdeveloped nations should take these low-skilled jobs with open arms, while investing their future in education so that higher-skilled labor can someday be the norm and not the rarity.

Let us take as an example of this point the much-reviled sweatshop. Is Kathy Lee Gifford, one of the paradigm cases of this phenomenon, a help or a hindrance to the economic development of the country in which she sets up her factory? Clearly the former. Why? Suppose that the prevailing wage in that nation is $1 per day; this figure is chosen only for purposes of illustration. Kathy can offer a wage that fits into just three categories with regard to that pay scale: above it, below it, or equal to it. In the latter two cases, it is clear, she will not be able to attract a labor force (we herein assume away unemployment; if there is joblessness, then the prevailing wage of the *entire* labor force is below the stipulated $1 per day). She must, therefore, offer the workers *more* than the amount of pay they were working for. Thus, it is clear, she is a *benefactor* to these workers. Could Kathy afford to pay more than this niggardly amount?[15] There is no reason to doubt this. However that issue is not germane to our concerns. We are attempting to unearth the truth about whether she benefits or harms these workers, not by how much, nor, yet, whether she could do *more* for them[16]. The answer is that Kathy *benefits* these impoverished employees; we know this because otherwise they would not work for her, and with alacrity.

If it were to the disadvantage of wealthy highly skilled people in one country to trade with people lacking these characteristics in another, the same "logic" would apply within national boundaries. That is, if it will harm high income Americans to interact commercially with low income Mexicans, it would also be to the disadvantage of the upper classes to employ the lower classes within any one country. But a moment's

[15] Of course, if she is forced to do so by law, Kathy might locate in another country, to the detriment of those who might have otherwise benefited.

reflection will show the fallacy here. If it were true, the rich would not benefit from, and thus never hire, poor people as maids and butlers. However, surely the very opposite is the case, as shown by the oft made complaint of the wealthy that they cannot get enough good servants.

But these remarks might be considered disanalogous[17], in that it is not, usually, the wealthy who are allegedly hurt by international trade, but rather the poor. However, the same insight obtains. If the poverty stricken were harmed by commercial interaction with the rich on an international scale, this might be expected to hold true, too, intranationally. Yet nothing could be further from the truth. As even common sense indicates, those with modest incomes are *benefited* from proximity to such places as Scarsdale, the upper east side of Manhattan, Vail, Colorado, San Francisco, etc.[18] This phenomenon operates, also, within a city, where the poor benefit from living next to the rich, in terms of employment, neighborhood safety, etc. (Block, forthcoming).

3. Trade restrictions create wealth

Many argue that tariffs and import quotas can increase employment in protected industries within national boundaries. This cannot be denied. For example, the recent Bush protection of domestic steel production will indeed increase wealth in Ohio, Indiana, West Virginia and other such places that manufacture this product. But this is a far cry from the claim that such policies can help the nation as a whole. Very much to the

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[16] If the critics of Kathy are so concerned that she help these foreign downtrodden workers even more, why do not they themselves step into the breach and do just that, instead of reviling her, the *only* person in our model who is already aiding them?

[17] We owe this point to an anonymous referee of This Journal.

[18] True, the poor are sometimes economically discomforted by "yuppification," as where the rich bid up housing prices and replace the poor. But this, by definition, cannot occur in the international context.

contrary, protections such as these decrease national income since they violate the laws of comparative advantage.

Take another example: by protecting lower-skilled textile industries we undermine advancements in higher-skilled industries like computer software. Tariffs and import quotas ensure that outputs of the protected sector become more expensive. Given that the output of this protected sector serves as inputs for the production of other goods within a nation, one can be assured that gains in the protected industry will cause losses in the industry that depends upon these overpriced inputs for production. Thus, the main accomplishment of tariffs and other restrictions on free trade can be found in inefficient markets and therefore a lower level of well-being for everyone.

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