

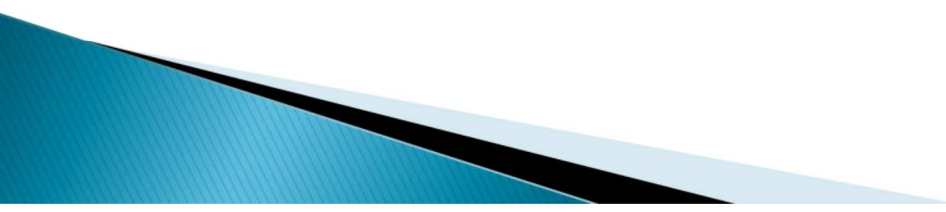
The importance of free trade

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Trump, Sanders and Pope Paul VI on trade

- ▶ Trump: “You go to New England, Ohio, Pennsylvania...manufacturing is down 30, 40, sometimes 50 per cent. NAFTA is the worst trade deal maybe ever signed anywhere”
 - ▶ Sanders: “I do not believe in unfettered free trade...We heard people tell us how many jobs would be created... you are now competing against people in Vietnam who make 56 cents an hour minimum wage”
 - ▶ Pope Paul VI (1967): “trade relations can no longer be based solely on the principle of free, unchecked competition, for it very often creates an economic dictatorship”
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Not so sure about free trade



The decorator that is good at everything

- ▶ A skilled decorator can paint a room in a day
- ▶ His young assistant can paint a room in three days
- ▶ The skilled decorator can clean up in one hour
- ▶ His assistant can clean up in two hours
- ▶ Should the decorator clean up and not employ an assistant?



Trade is based on *comparative* advantage

- ▶ The decorator decorates
- ▶ The assistant cleans up

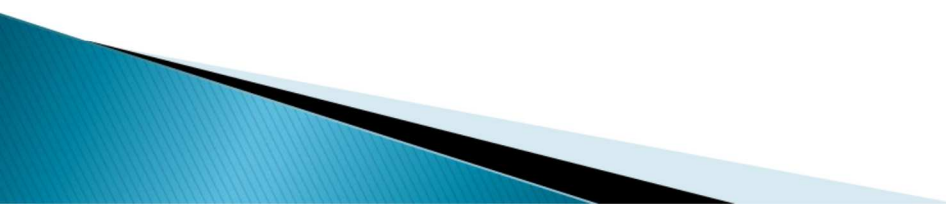
So

- ▶ The decorator would earn more than his assistant as a cleaner – but, he earns *even* more if he hires an assistant to clean and spends more time painting
- ▶ What applies to individuals nearly always applies to countries




Pope John Paul II on trade

“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.” *CA 33,34.*



Will trade impoverish the US?

- ▶ Sanders again: Vietnamese worker earns 56 cents an hour – will US wages fall to this level? No
 - US workers are more productive (more skills, more capital)
 - US workers earn more because they *don't* produce what Vietnam produces: they produce more valuable goods and export them
 - Free trade means US exporters are able to expand
 - US consumers get cheaper goods from abroad
 - Everybody benefits
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The US is rich...

Because it does *not* produce garments

Average
income
\$2,060

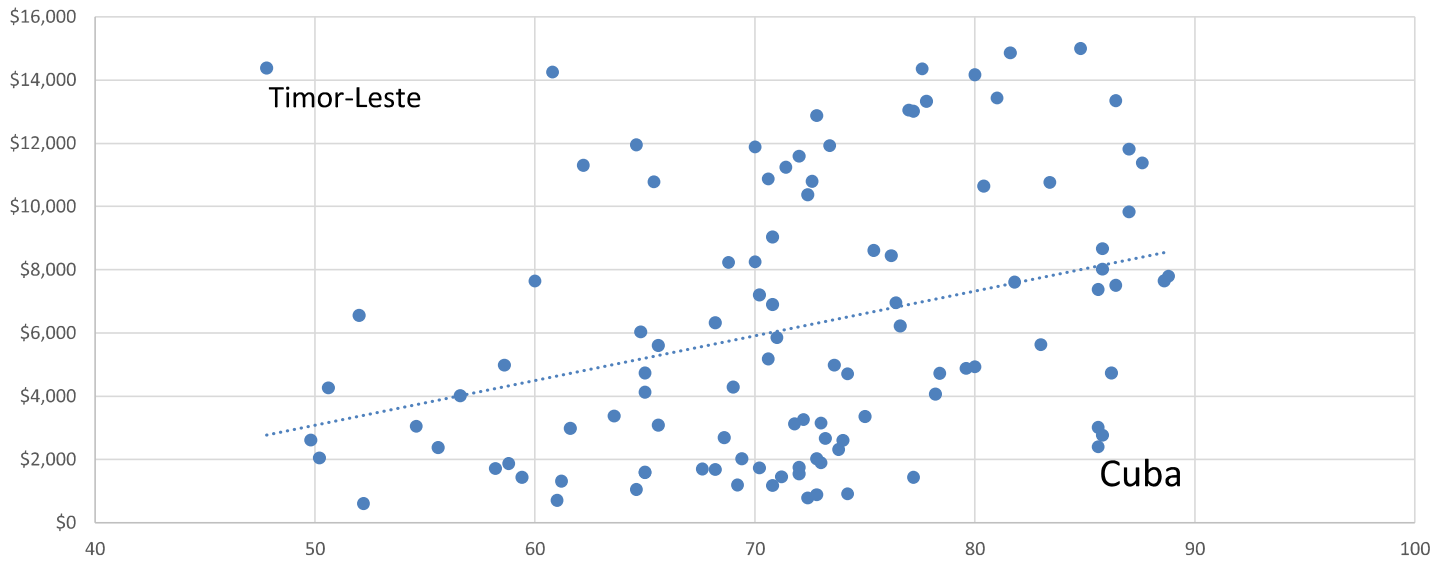


Average income \$56,850




Trade and income – poorer countries

Freedom to trade versus GDP per Capita (PPP) for countries with GDP < \$15,000 per capita



Vietnam – a case study

- ▶ Exports from Vietnam increased at 12 per cent a year for the last 27 years (imports at a slightly lower rate)
 - ▶ Proportion of people earning less than \$1.90 fallen from 49 per cent to 3 per cent
 - ▶ Child labour fallen
 - ▶ Global capital flows, such as through multinational corporations led to:
 - Better working conditions
 - Technology transfer
 - Capital moving to where it is scarce
 - Stable employment opportunities
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Trade and corruption (1)



Trade and corruption (2)

Collier: The bribe to enter a training school for customs officers in Madagascar is 50 times per capita annual income

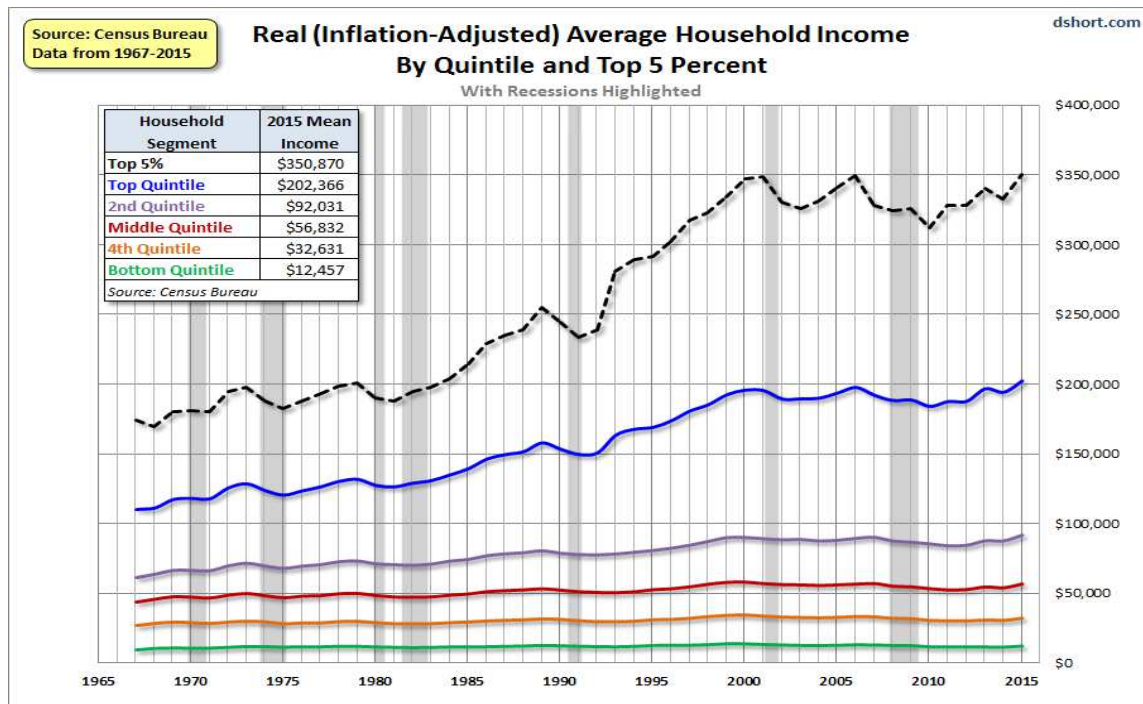


Should developing countries protect infant industries?

- Trade is necessary to discover in which industries a country has a comparative advantage
- Protectionism will make industry less efficient and never able to compete
- Danger of 'interest groups' that benefits from protectionism
- Tanzania followed such policies and, by the mid-1980s, some textile mills were operating at 10 per cent capacity in an industry that was protected and promoted by the government



But, Americans do not feel better off



Unemployment in Europe

“manufacturing by slaves for selling to the unemployed”

Youth unemployment in France – 23 per cent

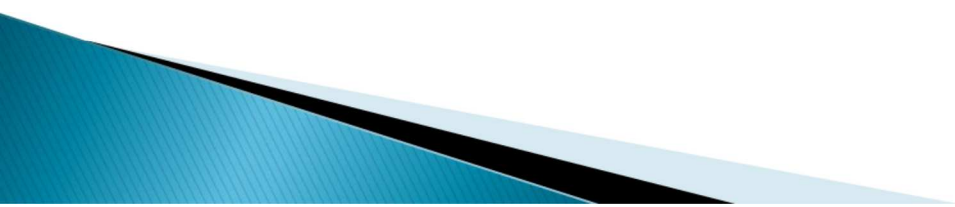
Youth unemployment in Italy – 35 per cent

Youth unemployment in Spain – 42 per cent



Why not free trade?

- ▶ Public opinion
 - 65 per cent believe that trade policy cost jobs
 - Only 51 per cent believe that free trade is generally a good thing
 - People not well informed about political issues in general – why would they be?
 - The ideas are, in fact, complex
- ▶ Interest groups – who gets subsidies?
 - \$300m subsidies to US sugar growers in 2015
- ▶ In many poor countries bureaucrats enrich themselves from trade restrictions



Conclusion

- ▶ Free trade generally benefits everybody
- ▶ Free trade especially benefits poor countries
- ▶ Protectionism enriches special interests and can encourage corruption
- ▶ It is unethical for Christians to campaign for protectionism for selfish reasons
- ▶ Changes in trade patterns have probably adversely affected some Americans
- ▶ Trade the 'preferential option for the poor'?



Additional reading

- ▶ Douglas Irwin, *Free Trade Under Fire*, fourth edition, Princeton University Press.
 - ▶ Johan Norberg, *Progress – Ten Reasons to Look Forward to the Future*, published by Oneworld
 - ▶ Daniel T. Griswold, *Mad About Trade: Why Main Street America Should Embrace Globalization*, Cato Institute
 - ▶ David Autor, “Another kick in the teeth”: a top economist on how trade with China helped elect Trump, blog post at: <https://www.vox.com/new-money/2017/3/29/15035498/autor-trump-china-trade-election>
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