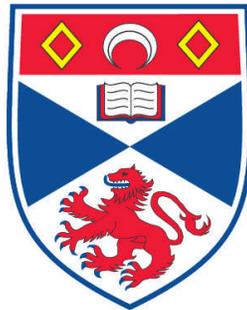


**THE ETHICS OF GLOBALISATION, FREE TRADE AND FAIR TRADE**

**Daniel Wood**

**A Thesis Submitted for the Degree of MPhil  
at the  
University of St. Andrews**



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# The Ethics of Globalisation, Free Trade and Fair Trade

Daniel Wood

University of St Andrews

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## Abstract

In this thesis I take a broadly consequentialist normative position and argue that because fair trade is an inefficient method of aiding the poor, we should not support it and prefer free trade goods with an appropriate and equal donation to a charity, designed to aid the poor and encourage development in the undeveloped and developing world, instead. I also argue that globalisation is the best means of development and we should support it as well. The thesis progresses first by considering consequentialism, which I argue is especially suited to the problem of analysing poverty in applied ethics, and some objections to it, which I briefly attempt to answer. Following that, I consider fair trade and both some theoretical and practical problems that it faces which my alternative does not. Then I briefly consider how globalisation results in development and why it should be supported. Finally, I conclude with a brief chapter where I respond to a few pertinent objections which arise on the periphery of my discussion that could be seen as damaging to my position.

## Declarations

### 1. *Candidate's declarations*

I, Daniel Wood, hereby certify that this thesis, which is approximately 40,000 words in length, has been written by me, that it is the record of work carried out by me and that it has not been submitted in any previous application for a higher degree.

I was admitted as a research student in September, 2009 and as a candidate for the degree of MPhil in Philosophy in September, 2009; the higher study for which this is a record was carried out in the University of St Andrews between 2009 and 2010.

Date                      Signature of candidate

### 2. *Supervisor's declarations*

I hereby certify that the candidate has fulfilled the conditions of the Resolution and Regulations appropriate for the degree of MPhil in the University of St Andrews and that the candidate is qualified to submit this thesis in application for that degree.

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## Acknowledgments

I would like to gratefully acknowledge the help that I received in writing this thesis from Tim Mulgan. I could not have asked for a more easy going yet helpful supervisor who allowed me the independence to pursue my own ideas, but was always promptly ready to read my drafts and provide me with invaluable suggestions. I would also like to thank my midterm reviewers Berys Gaut and Craig Smith for their comments on the first chapter of this thesis, and to thank the entire faculty at the philosophy department of St Andrews for the privilege of studying in such a fantastic setting. Finally, I would like to thank my family and girlfriend Diana for the support and love they gave me throughout the year I spent writing this thesis.

I would like to dedicate this thesis to my friend and mentor Murray Shoolbraid. The little success and great pleasure I have taken from academics I owe more to him than any other person.

## Contents

Introduction.....	2
Chapter One .....	5
1.1 Consequentialism and the Principles of Beneficence and Utility Maximisation .....	5
1.2 Objections to Consequentialism.....	9
The Injustice Objection .....	9
Alienation Objection.....	15
The Demandingness Objection.....	21
Combined Consequentialism.....	25
1.3 Defining Utility and Rationality, Globalisation, and Poverty and Development....	26
Utility and Rationality .....	26
Globalisation.....	32
Poverty and Development .....	33
1.4 Benefits of Adopting Consequentialism .....	35
1.5 Economics and Philosophy .....	44
Chapter 2.....	49
Introduction .....	49
2.1 Subsidising Industries .....	53
2.2 Specific Theoretical Costs of Fair Trade.....	62
2.3 An Alternative to Fair Trade .....	66

2.4 Economies of Scale .....	68
2.5 Bumper Crops .....	71
2.6 Sustainability.....	72
Conclusion.....	76
Chapter 3.....	77
Introduction .....	77
3.1 Plan B and A+ .....	78
3.2 Growth and Inequality.....	84
3.3 Economies of Scale, Industrialisation, and Free Market Economies .....	93
3.4 Free Trade .....	98
Conclusion.....	103
Chapter 4.....	104
Introduction .....	104
4.1 Paternalism, Cultural Imperialism vs Relativism, and Rationality .....	104
4.2 Other Undue Appeals to Moderation .....	107
4.3 Boycotting, Protectionism, and Human Rights.....	109
4.4 The means of production, profits and Inequality. ....	115
Conclusion .....	119
References.....	121

## Introduction

One of the most important ethical questions that faces us today is what should we do about poverty? It is an exhaustive question that covers dozens of complicated and integrated facets in moral and economic theory. The goal of this project is to evaluate some of the approaches to solving this problem. Some of the questions that will be tackled include: Does globalisation exacerbate or alleviate poverty? If globalisation actually reduces poverty, then should we support it, even if it means buying goods manufactured in sweatshops with substandard –often horrific– working conditions? Is fair trade preferable to free trade? And, probably most importantly, what should an ordinary person do to help solve world poverty in the most effective way possible? Essentially, this is a work of applied ethics. The central thesis is that globalisation is a force for good, and that free trade is ethically superior to fair trade. An important focus will be one that emphasises what the average person can do to help reduce poverty without making considerable demands on that person, though I certainly don't argue against the morality of charitable action. I will conclude with simple measures that the ordinary person can take that alleviate poverty more effectively than alternatives that are often adopted instead.

The initial goal of this project is to justify its existence in the first place. Perhaps, the first objection to this thesis will not be to take issue with any of the premises or the arguments it employs, but rather to question its proper place within the discipline of philosophy in the first place. It might be argued that I am not writing an essay in applied ethics at all, but that instead one that would be more appropriate in an economics department. Thus, I will attempt to refute this first objection before moving into the philosophical questions that I wish to tackle. However, to do this it will first be necessary to explain and justify the approach to normative

ethics that I employ. The general normative theory that I accept is a consequentialist one. As my thesis is that globalisation is a force for good, and that while there may be consequences of the process of globalisation that *prima facie* appear to be bad, (the labour conditions in sweat shops for example) these are actually inevitable and steps towards solving the world's greatest problem –world poverty. It is necessary, given my approach, to employ economic theory and utilise economic facts to study this problem and come to an appropriate position on what it is that we, as citizens of developed nations, should do to solve the problem.

First, I shall outline broadly the normative approach that I favour. While I shall argue that it is not essential to accept it for all of my arguments to work, I do admit that at times I will largely take it for granted. However, as this is a work of applied ethics, there will be many versions of alternative normative theories that will work just as well for my cause, but they will not necessarily guarantee all of my conclusions quite as neatly as consequentialism does. However, it will largely be up to the reader who doesn't accept my view of normative ethics to determine how plausible the conclusions are in light of the normative theory that she favours.

The first chapter will quickly explain my general consequentialist approach and will cover some of the most common, and generally accepted as most powerful, objections (as well as replies to these objections) to consequentialism. I will examine in more detail the demandingness objection, because it especially applies to the topic at hand, and I hope, humbly, to suggest that in some regards the positions that I will be advocating go a small way towards finding a middle ground that could serve as a solution to this objection, at least the problem in terms of applied ethics. Further, I will explain some secondary benefits of accepting consequentialism, because of its close connection to economic theory, which is important to understanding properly what poverty actually is, its causes and its solutions. This will largely take the form of giving some

key definitions and how they can be expressed in consequentialist terms. After that, I will present my position in two chapters. In the second chapter I will argue for why fair trade should be abandoned. In the third chapter I will focus on why globalisation should be supported. In the fourth and final chapter I will reply quickly to objections that opponents of my position might raise in response to the second and third chapter.

Before I move on to distinguishing my project from economics, I will now explain the consequentialist position that I endorse. Then I will attempt to deal with the most common objections to consequentialism, especially the one that directly relates to my subject matter: the demandingness objection.

## Chapter One

### 1.1 Consequentialism and the Principles of Beneficence and Utility Maximisation

I will use and accept a consequentialist approach to ethics as my broad normative theory. It is not necessary to elaborate too extensively on the theory that I accept, because the premises that I will employ, which are largely justified by my normative views,<sup>1</sup> are common to, or can be adapted to fit, virtually all consequentialist theories (such as the most well known theory of consequentialism, utilitarianism). Consequentialism, as a broad term, refers to the view that acting morally consists in engaging in actions that create certain outcomes or consequences which are taken to be desirable.

Consequentialism, as I use the term, comprises many different theories that distinguish themselves mostly by the differences in the nuanced details that attempt best to reflect their proponent's intuitions about what is moral and what is not, and which intuitions must be juggled and sacrificed in the interests of getting a satisfactory theory of ethics. However, they are united by a common approach to ethics: to be moral is to act so as to realise certain consequences, what

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<sup>1</sup> There is of course a difficult question in moral philosophy: is it our intuitions about what is ethical that determines which theories that we should accept, or should we accept a theory and then attempt to shape our intuitions with it? The problem resembles the chicken and egg paradox. We cannot prefer one normative theory to another without some sort of criteria, which will inevitably have to be our pre-theoretical intuitions about what is right and wrong, but then how do we accommodate the theory that we select, on those grounds, when that theory violates other intuitions that we, or at least many others, accept, which it will inevitably do? Further, one of the benefits of a normative theory is that it is supposed to help us make moral decisions when our intuitions are murky or inconsistent, so surely we cannot simply rely only on what our pre-theoretical intuitions tell us, or we need not have adopted the normative theory in the first place. The solution is a balancing act, which is unfortunately difficult to express completely. However, it is clear that there must be some room for our normative theories justifying normative claims, even if the claims are similar to the basic intuitions that we used to justify adopting that particular normative theory in the first place. Similarly, occasionally based on the theory that we have selected, it must be acceptable to override our pre-theoretical intuitions, especially when our intuitions are contradictory or obscure. For further discussion on this issue, see especially the principle of 'reflective equilibrium' in John Rawls, *A Theory of Justice* (Oxford: Oxford University Press, 1996) and the literature that surrounds it, such as Michael DePaul, "Reflective Equilibrium and Foundationalism," *American Philosophical Quarterly* 23.1 (1986): 59-69; Gilbert Harman, "Three Trends in Moral and Political Philosophy," *The Journal of Value Inquiry* 37.3 (2003): 415-25; Brad Hooker, *Ideal Code, Real World* (Oxford, Oxford University Press, 2000), and Warren Quinn, *Morality and Action* (Cambridge: Cambridge University Press, 2003).

exactly these consequences are depends on the particular theory being used. Thus according to a consequentialist, two similar acts (such as lying or stealing) can differ with one another as to their moral status, simply because of the consequences of those acts: for example, stealing food to feed starving children, or lying to save a friend from a murderer at the door, may be acceptable, but stealing jewellery from a store to felicitate an early retirement, or lying to persuade a potential client to invest in a Ponzi scheme may be immoral. It can also be true that acts can differ in their moral status even when the intention of the actors is the same. Thus, stealing food from an orphanage filled with malnourished children to feed one's family can be wrong, while stealing food, for the same reason, from a wealthy and well fed Hedge Fund manager may be ethical. To apply consequentialism directly to the question at hand yields a result like this: *Whatever action will lead to the best consequences in developing and undeveloped regions, such as large parts of Africa (assuming that it doesn't drastically reduce wellbeing elsewhere) is the action that we should take.* As we shall see shortly, this claim may need to be tempered due to objections of demandingness.

Actually, it is my hope that I will not need necessarily to rely on consequentialism at the expense of other normative theories at all, by which I mean that, many if not most, readers who do not identify themselves within the school of consequentialism will still find my arguments persuasive and accept my conclusions by adopting a weaker consequentialist view. For example, this could be expressed in terms of reasons. We might see acting morally (and indeed acting at all) as the balancing of many different competing reasons to take a host of possible actions; thus, one might always have a moral reason to promote total utility, provided that it is not overridden by a more pressing reason. For example, one might always have a more paramount reason never to kill an innocent person, but assuming one does not have such an overriding reason, then we

would be obligated to perform the utility maximising action (though this may be softened further, due to the demandingness objection, which we shall discuss shortly).<sup>2</sup> This weaker principle simply states that one should maximise the good, provided that it doesn't violate whatever other theories of ethics one subscribes to, for example by forcing agents to do things like shooting an innocent man to stop a riot that would otherwise kill many more innocent people.<sup>3</sup> The second normative premise that I must have is at least a limited principle of beneficence,<sup>4</sup> while a limited principle of beneficence is guaranteed by standard consequentialist theories, it is also widely accepted by proponents of all ethical theories, including deontological theories and virtue ethics. Perhaps the only exceptions are, radical egoism, certain forms of contractarian (social contract) theory, for example as argued for by David Gauthier,<sup>5</sup> and libertarianism.

However, whether a principle of beneficence can be justified, or is necessary, given an alternative ethical theory to consequentialism, is not a question that shall be further considered. If it can be done, then so much the better, but if it cannot be done, then so much the worse for those alternative theories, because the principle of beneficence is not one that should be up for debate, and any theory that cannot produce an equivalent principle is not worth considering.

Thus, the two normative claims that are at the centre of my project are simple and, as I suggested above, largely uncontroversial. First, the weak consequentialist principle of utility maximisation, *we should maximise the good, provided that it doesn't violate other ethical*

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<sup>2</sup> See for example, Thomas Scanlon, *What We Owe to Each Other* (Cambridge Massachusetts: Harvard University Press 1998), and John Skorupski, *The Domain of Reasons* (Oxford: Oxford University Press, Forthcoming 2010).

<sup>3</sup> Otsuka, for example, calls something, if not identical to this, at least very similar to this, the 'Restricted Principle of Maximization.' See Michael Otsuka, "The Paradox of Group Beneficence," *Philosophy and Public Affairs* 20.2 (1991):139-49.

<sup>4</sup> It is also limited by the demandingness objection.

<sup>5</sup> David Gauthier, *Morals by Agreement* (Oxford: Clarendon, 1986).

restrictions.<sup>6</sup> Second, a limited principle of beneficence, *we should take action to help others that are greatly in need, if we have it within our reasonable power to do so, even if we have no significant relations with those people and owe no other obligations to them.* There is another common moral intuition that I shall not be relying upon, because not only is it superfluous given my consequentialist position, but more because it does not apply to the situation nearly as well as those philosophers who rely on it suppose:<sup>7</sup> *we should refrain from any action that will lead to the harming of another person, unless we fairly compensate that person, or unless we are compelled to take that action for another superseding ethical reason.*<sup>8</sup> Many argue that as our economic prosperity comes directly at the expense of the developing and undeveloped world, we are obligated to aid them, because of this principle. However, the claim that ‘our economic prosperity comes directly at the expense of the developing and undeveloped world’ is false, as shall be shown later. Therefore, we must either conclude that we owe no obligations to the poor, or we must find another way to generate those obligations, and I look no further than a consequentialist moral theory and most importantly a general principle of beneficence (the strength and demands of such a principle will shortly be discussed).

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<sup>6</sup> Crucially, I also assume that it does not violate one’s theory of ethics to buy goods from a person that is benefited overall by the exchange, even if the conditions that that person made those goods under are less than ideal. The significance of this will become more clear in the third chapter.

<sup>7</sup> For example, Tomas Pogge, *World Poverty and Human Rights* (Malden, 2002), uses this principle to justify our obligation to the people living in developing countries. However, this obligation, of course, consists of doing more to help them than we are now, but this requires assuming that globalisation is a force for evil rather than good, which I shall be arguing is false. If globalisation is a force for good, then our obligations to many developing countries would be greatly diminished, perhaps to the point where those obligations have already been met. If we want to maintain that we should do much to help the plight of ordinary people in developing and undeveloped countries, (such as people in the sub-Saharan region of Africa) as I do, then we need a Principle of Beneficence to justify this obligation.

<sup>8</sup> A normative claim like this is what implicitly justifies virtually all ethically motivated boycotts, such as the refusal to buy sugar harvested by slaves in the 19<sup>th</sup> century, or the decision that many of us make today to refuse to buy *foie gras* and other foods that rely on the technique of *gavage*. And it is also this intuition that many people today use, unfortunately, to justify boycotting many free trade goods and the companies that produce and sell them.

## 1.2 Objections to Consequentialism

There are many objections to consequentialism, and due to space constraints most will have to be ignored. I will focus on only three objections, which I take to be generally considered as the strongest. The first objection is one of injustice. It is often alleged that consequentialism fails properly to account for basic tenets of justice. Secondly, I will look at the claim that consequentialism alienates those who follow it in such a way as to create a paradox that demonstrates its contradiction. Thirdly, I will consider an objection that is especially central to my own thesis: the demandingness objection. I will conclude the section with some thoughts on how an adequate theory of consequentialism may be formed by incorporating solutions to both the second and third objection using an account of combined consequentialism as argued for by Tim Mulgan.

### The Injustice Objection

The first problem consequentialists generally run into is a question: how can one be required to take what is generally considered to be an immoral action in the name of morality? A standard formulation of this problem that gets to the heart of the issue is: *would you shoot an innocent man to stop a riot that would otherwise kill many more innocent people?* Obviously, the standard consequentialist answer is yes. There are many other examples like this that are pervasive throughout ethical disputes. The problem can be simply stated as follows: do the ends always justify the means, if there is a larger amount of utility created by those means than any other action? We are forced down one of two unpalatable paths, either we accept that the ends can justify the means, which often results in conclusions that go against our intuitions, or we accept that desirable ends do not justify certain means, and we are faced with other unethical

conclusions. Henceforth, I shall call this problem ‘the injustice dilemma.’ Thus, the injustice objection to consequentialism is one of the horns of the injustice dilemma; specifically, it is the side of the dilemma where certain, intuitively bad, means lead to a better end, yet we find ourselves against their use.

In this debate, it is not surprising that opponents of consequentialism try to put as much emphasis as possible on horrific means, while consequentialists use examples with virtually trivial, yet technically unjust, means and extraordinarily desirable ends. The debate is made even more difficult because we often have conflicting intuitions depending on, what appear to many as, morally trivial differences. For example, the famous trolley car problem.<sup>9</sup>

There has been, as one would expect, considerable debate on the injustice objection, and many possible solutions have been proposed. There are effectively two approaches that a consequentialist may take. The first is to build a very nuanced version of consequentialism, which, through a host of possible theoretical distinctions, attempts to create a theory that accommodates the difficult thought experiments, so that the conflicting intuitions that these thought experiments create are resolved satisfactorily. One such attempt is to introduce agent relativity.<sup>10</sup> Or secondly, the approach that I favour is to bite the bullet and defend the strict consequentialist line for all of the examples of injustice objections, and instead argue that it is

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<sup>9</sup> See for a discussion of this problem, Judith J. Thomson, “Killing, Letting Die and The Trolley Problem,” *Monist* 59.2 (1976): 204-17; and for the original thought experiment, Philippa Foot, “The Problem of Abortion and the Doctrine of Double Effect,” *Oxford Review*, 5 (1967): 5-15.

<sup>10</sup> For example, see John Broome, *Weighing Lives* (Oxford: Oxford University Press, 2006); Amartya Sen, “Rights and Agency,” *Philosophy and Public Affairs* 11.1 (1982): 3-39; Douglas W. Portmore, “Can an Act-Consequentialist Theory be Agent-Relative?” *American Philosophical Quarterly* 38.4 (2001): 363-77, and Douglas W. Portmore, “Position-Relative Consequentialism. Agent-Centered Options, and Supererogation.” *Ethics* 113.2 (2003): 303-32.

our intuitions that in certain cases should be overridden,<sup>11</sup> because it is they that are contradictory and more appropriate for ordinary moral questions, rather than such farfetched ones.<sup>12</sup>

While I accept that though these thought experiments may provide persuasive force, I suggest that the best approach is to step back and see if we can characterise the problem in different terms, without resorting to such prejudicial methods of argumentation. The dilemma is such that both consequentialists and anti-consequentialists can levy intuitively plausible objections against their opponents simply by modifying very slight details in their thought experiments. Thus, when engaging in such an approach, the ethical theory one inevitably settles upon is largely dependent upon the often contradictory pre-theoretical intuitions one has that are most strongly twigged by the thought experiment in question. However, this is clearly not the ideal way to answer this puzzle, which is why cutting away as many of the unnecessary factors is essential.

Allow me to attempt to solve this problem with either one of two positions: first with an argument that concludes with a very weak claim, followed by an argument that has a much stronger claim as its conclusion. First, I shall argue, for my purposes this is not a problem that I have to solve, because I can utilise a very weak form of consequentialism that is effectively immune to these objections. Then I will argue (largely by paraphrasing Scheffler) that actually consequentialism is the correct position and that nonconsequentialist theories are contradictory. However, the second argument should be seen more as a candidate explanation for solving the injustice dilemma, not as necessarily a death blow to deontology. I wish simply to show that

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<sup>11</sup> Recall our earlier discussion of reflective equilibrium.

<sup>12</sup> Proponents of this approach include Alastair Norcross, "Comparing Harms: Headaches and Human Lives," *Philosophy Public Affairs* 26.2 (1997): 135-67; Peter Singer, "Sidgwick and Reflective Equilibrium," *Monist* 58 (1974): 490-517; Timothy Sprigge, "A Utilitarian Reply to Dr. McCloskey," *Inquiry* 8.1 (1965): 264-91; and Peter Unger *Living High and Letting Die: Our Illusion of Innocence* (Oxford: Oxford University Press, 1996).

consequentialists at least have plausible reasons for preferring their position to deontology because of this dilemma, and certainly one of the primary reasons why I prefer consequentialism as a normative theory. I should emphasise again though that it is my first argument that I chiefly rely upon here.

First of all, in the preceding section I specifically specified that the two central normative claims that my project hinges upon are a limited principle of beneficence, and a weak principle of maximisation. I am prepared to accept such weak forms of these principles that I can effectively circumnavigate this objection. All that we need to accept are the following claims: *we should maximise the good, provided that it doesn't violate other ethical restrictions*, and *secondly we should take action to help others that are greatly in need, if we have it within our reasonable power to do so, even if we have no significant relations with those people and owe no other obligations to them*. This still leaves open questions about how to define utility and worries about demandingness, but we shall discuss these shortly. However, as I also stated earlier, I do favour some form of consequentialist theory, not only because it guarantees a suitably strong principle of beneficence, but because my intuitions when it comes to solving the injustice dilemma are consequentialist. I will now attempt to justify this approach with a second argument that concludes that we should favour consequentialism over its rivals because of this dilemma.

There are many peripheral questions that appear to be intrinsically linked to the injustice objection; these lead to especially muddy, philosophical waters. However by correctly framing the debate, we can dispose of most of them: leaving us a more simple question. Here are a few examples of questions that should be set aside: *'How do we weigh the consequences of different acts?'*, *'What happens if the only reason the bad consequences are necessary is because another agent insists on committing an immoral act?'*, or *'What happens if the choice comes down to*

*selecting a larger quantity of one kind of good over a smaller quantity of another, like choosing to violate one person's democratic rights, to promote several peoples' equality rights?'. Any thought experiment that attempts to answer one of these questions as well as the injustice objection simultaneously should be ignored, because questions like these obfuscate rather than clarify the problem. They can be effectively neutralised by focusing on the real issue at hand. Scheffler characterises the problem as whether 'Agent-Centered Restrictions' can be justified.<sup>13</sup> Agent-centered restrictions require agents in certain situations to refrain from taking an action, because that action itself is somehow unethical, that would otherwise produce an overall better result. These are contrasted with agent centered prerogatives,<sup>14</sup> which allow agents to refrain from taking the action that maximises total utility in certain circumstances (essentially when the total cost to utility is not drastic), if it is to their own benefit. Scheffler is in favour of the latter and not the former, but we shall get into this in more detail shortly, when we consider the demandingness objection.*

To get to the heart of the problem requires only asking one question: "Can it be rational to forbid the performance of a morally objectionable action that will have the effect of minimising the total number of comparably objectionable actions that are performed and will have no other morally relevant consequences?"<sup>15</sup> We effectively side step questions about the coherence of aggregate utilities, comparing one good to another, or whether other rational agents being involved is relevant. We do this by focusing purely on the actions themselves, and we note that if an action is unethical, then surely it is preferable to have less, rather than more, of these actions. If in principle one can honestly prefer, as morally superior, a world with several identical

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<sup>13</sup> Samuel Scheffler, "Agent-Centered Restrictions, Rationality, And the Virtues," *Mind*, 94:375 (1985): 409-19.

<sup>14</sup> Samuel Scheffler, "Prerogatives Without Restriction". *Philosophical Perspectives*. 6. (1992): 377-97.

<sup>15</sup> Scheffler, "Agent-Centered Restrictions, Rationality, And the Virtues," 413.

wrongs to a world with fewer of these wrongs, then consequentialism is dealt a heavy blow (maybe even a fatal one). However, if it is paradoxical to prefer a world with more wrongs, all of a certain kind, to an otherwise identical world, except that it has less of these same wrongs, then consequentialism is justified as a foundation for morality, while it is its competitors that are disconfirmed. Once the principle is established, then we can begin to tackle the more difficult questions about weighing one good against another and how properly to define utility etc.. Clearly, the claim that ‘it is paradoxical to prefer a world with more wrongs, all of a certain kind, to an otherwise identical world, except that it has less of these same wrongs,’ is the most controversial, and if one denies it, then I must most certainly use my above far weaker argument, but at least this may serve to clarify the debate to its most simple form: do we prefer more or less immoral acts?

The injustice objection is a problem that properly deserves to be addressed entirely on its own, and this has obviously been a merely precursory discussion of it. Clearly, not only is Scheffler’s account that I have accepted not going to be accepted by many opponents of consequentialism, it will not even be accepted by many consequentialists themselves who wish to tackle the injustice objection not by meeting it head on but by modifying consequentialism even further. For this reason it is probably my first argument that I will need to rely upon, but I hope that there is at least a virtue in explaining the root of one’s normative assumptions when doing applied ethics, even if the most crucial of those assumptions are largely uncontroversial.

Finally, it is worth noting that there may be one philosophical position that allows one to deny both of my responses to the injustice objection. A few proponents of fair trade might argue that the reason that they are obligated to engage in fair trade is not because they are attempting to raise the total utility of developing countries, but because they simply are required to perform

certain ethical practices when interacting with people, and that these include the people that grow their coffee and their cocoa, for instance, even if they never meet them and there are several intermediaries between them who are also responsible for those goods. Thus, these fair traders feel morally obligated not to exploit the producers of their food, so they are required to give them a premium for their goods, because it is them in particular who grew their food. However, beyond that they owe them nothing more. Therefore, even if it can be demonstrated that there is an alternative to fair trade that is less costly and more effective at increasing the welfare of the people that fair trade is designed to help, it may still be morally preferable for these fair traders to engage in fair trade instead of that better form of aid, because of this normative position that they hold. To these people I do not have an especially satisfactory response, other than to note that they may find at least a few reasons to support free trade and globalisation in the following chapters that do not need to involve them breaking their peculiar normative code. However for my own satisfaction, I may at least note that I suspect that they are indeed a small minority, and the majority of people who buy fair trade goods do so because they intend primarily to increase the welfare of developing countries; i.e., they intend to help the poor in developing countries as much as possible.

### **Alienation Objection**

The Alienation Objection broadly asserts that a consequentialist agent would be alienated from her relationships and projects. I shall focus on how this alienation is commonly illustrated in two forms: first, it raises a series of concerns that come up between consequentialists and their friends, or rather problems that would arise between *theoretical* consequentialists and their friends. The second problem of alienation arises when consequentialists face moral dilemmas like those discussed above in the injustice objection. Let's start by describing the two problems,

first with the friends example. Then we shall move to the moral dilemmas' concern second. After outlining the two problems we can consider a commonly accepted solution –at least among consequentialists.

The first objection goes like this: if consequentialists are to take their theory seriously, or if an actual agent were to act in such a way as a consequentialist theory says he should, then the result would be large scale alienation between him and many of his projects and relationships, for example his friends. The basic problem can be described as follows: a consequentialist should act to maximise utility, in all his actions, so he should be guided by this principle when he is picking and making friends. However, this risks alienating the consequentialist from the full good of friendship, and can create a paradox fatal to consequentialism. To illustrate, suppose I have a friend Brad, and the only reason that we became friends is entirely because, as I am such a contemptible person, Brad took pity upon me and realised that if he did not become my friend, then I would have no friends at all and be miserable. However, his relationship with me is not that of genuine friendship, even if he is extremely effective at maintaining the ruse that we are close friends, and I never suspect that his motivations are entirely consequentialist in origin. There is still a major problem. Brad is not experiencing friendship in the right way: he is alienated. Ironically, there would be a higher total utility, suppose, if he was not entirely guided by consequentialist moral theory but instead made friends in the ordinary manner and valued those friends for friendship's sake. Thus, consequentialism is self-defeating and therefore inadequate as a moral theory.<sup>16</sup>

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<sup>16</sup> Michael Stocker, "The Schizophrenia of Modern Ethical Theories," *The Journal of Philosophy* 73:14. (1976): 453-66.

Another similar problem arises when consequentialists come to moral dilemmas. Suppose several people are going to die, unless a consequentialist (for whatever reason) kills, in a rather gruesome fashion, a single person. The correct thing to do, given whatever theory of ethics is actually settled upon, may very well be to take that action, but the decision should be an agonising one, taken only with reluctance and regret, or so the objection maintains. However given consequentialism, it is actually only a simple problem of arithmetic to decide what is the correct action. Therefore, consequentialism alienates consequentialists from their humanity and is unacceptable, because a world where we are not alienated from our humanity is (presumably) better than the one where we are. Again, ironically, consequentialism is self-defeating, so it is inadequate and another theory of morality must be found.<sup>17</sup>

The solution to both problems, that I accept, is adopting a more sophisticated form of consequentialism, what is often called indirect or rule consequentialism.<sup>18</sup> Unfortunately, throughout philosophical literature, these terms are not used entirely consistently. Thus, I will quickly outline the solution to this problem that I accept. To develop an adequate form of consequentialism, the first step is often to distinguish between a criterion of rightness and a decision procedure. The distinction makes clear that while we can still define our moral goal, (the criterion of rightness) as consequentialists, is the highest aggregate of utility, (although we may still need to abandon this too, which we shall discuss shortly in consideration of the demandingness objection) we accept that the best way to accomplish this is not necessarily to

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<sup>17</sup> Bernard Williams, "A Critique of Utilitarianism," In *Philosophy: Basic Readings Second Edition*, edited by Nigel Warburton (New York: Routledge, 2005), 156-69.

<sup>18</sup> The distinction and solution that I am espousing might be called individual act consequentialism. It is certainly largely associated with Peter Railton, for example see Peter Railton, "Alienation, Consequentialism, and Morality," *Philosophy and Public Affairs* 13 (1984): 134-71, for his position. For further discussion and criticism of the criterion of rightness/decision procedure distinction see, for example, James Griffin, "The Distinction between Criterion and Decision Procedure: A Reply to Madison Powers," *Utilitas* 6 (1994): 177-182; and see, for the introduction of the distinction, Eugene Bales, "Act-Utilitarianism: Account of Right-Making Characteristics or Decision-Making Procedure?" *American Philosophical Quarterly* 8 (1971): 257-65.

attempt, as individuals, to maximise the good at all times (which is our decision procedure, i.e. how we decide to act, because we are consequentialists). This is because human beings are not dispassionate: we are not ideal moral agents, so we have to take this into account when we make decisions in cases where morality applies. It simply will not work to teach people to treat their family members and friends in exactly the same way as they would treat strangers, because if we did, then nobody would ever help anybody else move again. Further, people would become extremely unhappy, and the world where nobody establishes bonds of friendship and love that cause them to treat certain people preferentially to strangers, would be a world with less utility than the world where they do. Therefore, it is essential that as consequentialists we separate our decision procedure from our criterion of rightness, although in practice, presumably, they would not be radically different from each other, even if theoretically they could be.

Another version of consequentialism, what I would call rule consequentialism (as opposed to indirect), is a possible solution to this problem, for example the position of Brad Hooker.<sup>19</sup> Further, some variants of rule consequentialism (collective rule consequentialism) may have the additional benefit of side stepping the demandingness objection. However, due to space constraints I will not be discussing these versions, because I think they are generally much less plausible than other forms of consequentialism, especially due to an objection, often called the ‘collapse objection,’ that argues that rule consequentialism reduces to a form of indirect act consequentialism.<sup>20</sup> However, as always, these are my preferences, and the arguments that follow this chapter will be largely compatible with various forms of rule consequentialism, even if I do

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<sup>19</sup> For example, see Hooker, *Ideal Code, Real World*.

<sup>20</sup> See David Lyons, *The Forms and Limits of Utilitarianism* (Oxford: Oxford University Press, 2002) and John J. Smart, “An Outline of a System of Utilitarian Ethics,” in *Utilitarianism; for and against*. By J.J.C. Smart and Bernard Williams (Cambridge: Cambridge University Press, 1973).

not share their proponents' optimism for the many possible views of rule consequentialism themselves.

Now let's elaborate on exactly how the proposed distinction between a criterion of rightness and a decision procedure allows us to solve the alienation objection. Let's do this by examining just one of the examples described above, what is now often called the 'Pedro' thought experiment taken from Williams' "A Critique of Utilitarianism." In this example a man (called Jim) is given the choice (by Pedro) of either shooting an innocent man himself or standing by and watching while that innocent man is shot, along with 19 other innocent people. First of all, it is crucial that there is actually a paradox, so we must assume that the possible world where Jim shoots the innocent man with no hesitation is worse, in consequentialist terms,<sup>21</sup> than the world where he hesitates and then, only after resolving himself to the horrible situation, does he shoot and presumably grieve (how most of us would expect) appropriately that action. If Jim behaves in exactly the way consequentialist theory tells him to behave, then the world is worse off than if another moral theory had guided his actions. To clarify, if Jim uses consequentialist theory as his sole motivation for every action he takes, then the world is worse off than if he didn't, because a consequentialist motivation doesn't allow him to properly engage in morality, which is taken to be desirable. If this were not the case, if the world where Jim does behave as a pure consequentialist and doesn't hesitate or feel remorse of any kind and this turns

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<sup>21</sup> By consequentialist terms I simply mean in total utility. Thus, the world where Jim shoots the innocent man and never regrets the decision has less total utility in it than the world where he shoots that same man, but grieves the decision. If we do not accept this claim, then the alienation objection unravels, because the paradox that it relies upon fails to be realised. Presumably, this claim can be justified with a claim similar to the following: *if Jim didn't grieve that action, then he would be the kind of man who wouldn't feel other similar emotions at other appropriate times and taken as a whole, that world would have less utility in it than the one where he does grieve, and feel other appropriate emotions at other times*, or something similar. How to define utility properly to get this result is another question, one that we shall look at shortly. Further, it is essential that we describe the world as better in consequentialist terms, or the objection will be simply talking past the consequentialist.

out actually to be better than if he had grieved etc., then this objection is simply identical to the injustice objection discussed above, and we need not worry about it further.

However, the solution to the Pedro thought experiment (and other cases of alienation as well, like friendship) is not so much to refute its point, but to accept it and incorporate it into the theory. If Jim should motivate his actions in a non-consequentialist way to get the best consequences, (where in this case one of the consequences is how the actual act of deciding contributes to that utility) then that is exactly what he should do. To put it another way, one of the contributing factors to an individual's utility is how that individual feels about her own decision procedure, and what feelings the act of deciding generates. Thus, the world is described as best when there is no utility stone left unturned as it were: there is no way to get any more utility whatsoever. That is the criterion of rightness. How agents decide between one path or another is their decision procedure. Given that the decision procedures that agents use to make decisions affects total utility, then that must be accommodated by the consequentialist theory that we settle upon. Clearly then, the decision procedure that tells agents to act in such a way as to maximise utility *as if their own decision procedure didn't affect that total utility* will in certain cases be less than optimal. Thus, when an agent's decision procedure (call it the optimal decision procedure) departs from the decision procedure that would cause that agent to act in the way that that agent would act in if her decision procedure didn't affect her own utility (and possibly others'), and this second decision procedure would lead to total utility being diminished, then that decision procedure (the optimal one) should be adopted and the other abandoned. Finally, it is worth noting, as stated above, that it is extremely unlikely that decision procedures that depart completely from consequentialism will actually lead to a higher total utility, though it is

conceivable, and in those theoretical cases the correct solution is to adopt an entirely consequentialist criterion of rightness and an entirely nonconsequentialist decision procedure.

The solution to the alienation problem that I embrace is an individual, indirect, act consequentialist one, but unlike the collective rule consequentialist alternative mentioned above, it most certainly does not solve the demandingness objection. Thus, I will have to develop my theory further still. The final solution will then be a complete and nuanced theory that I accept, but I caution again, it is simply the form that I prefer. There may well be better answers to these objections, and provided that they allow an adequate principle of beneficence and a maximisation principle, then for our purposes they should suffice just as well, if not even better.

### **The Demandingness Objection**

Perhaps the most famous objection to consequentialism is the demandingness objection. This objection states that consequentialism must be false because it expects far too much of us. The objection takes the following form: if we accept consequentialism, then we have to accept that if somebody can make a small sacrifice to increase greatly the welfare of another human being or many other human beings, then that person must do so to act morally and not to do so is to act immorally. However, if we apply this to our world, we can see that we, those of us lucky enough to be living in developed countries and able to devote much of our time to engaging in pursuits such as considering the demandingness objection, are in this position ourselves. We could easily make a small sacrifice that would greatly increase the welfare of another human being. We could make a small sacrifice that would save lives. Further, once we had made that small sacrifice, there would be another small sacrifice that would also be possible. That sacrifice

too would save lives.<sup>22</sup> Many philosophers have argued that a consequence of consequentialism is that we should all continue to donate to charity until we reach the point where we are no longer better off than the people we are obligated to help in this way. However, this is absurdly too demanding, therefore consequentialism is false.<sup>23</sup>

The problem arises given either of the two normative principles that I explicitly endorsed above: *we should maximise the good, provided that it doesn't violate other ethical restrictions* or *we should take action to help others that are greatly in need, if we have it within our reasonable power to do so, even if we have no significant relations with those people and owe no other obligations to them*. The question becomes what is within our reasonable power to help those in need. Taken to the extreme, virtually any action that we can take to help people who are starving would appear to be required by a consequentialist theory of morality. If an average person living in our society gave over half of her income to the poor in developing countries every year, then it is almost certain that the total utility in the world would increase.<sup>24</sup> While she would certainly find that her life style was diminished, she would save many lives and more than compensate for the relatively small loss in utility that she herself would suffer with such a sacrifice.

It is especially important to note that much of the literature and discussion of the demandingness objection is due largely to the famous essay “Famine Affluence and Morality” by

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<sup>22</sup> The sort of sacrifices that we are talking about are simple, like deciding not to buy expensive designer clothes, when there are virtually identical ones available that cost far less or new mp3 players –when our old ones still work– because the new one holds more songs or plays videos, which are actually features that we will never use. We could take the savings from foregoing these frivolities and donate them to worthy charities, which would save and greatly improve lives in developing and undeveloped countries, especially in sub-Saharan Africa.

<sup>23</sup> Samuel Scheffler, *The Rejection of Consequentialism: a Philosophical Investigation of the Considerations Underlying Rival Moral Conceptions* (Oxford: Clarendon, 1994).

<sup>24</sup> There remains a question as to what would be the most effective way to benefit those who are living in Africa with such a sacrifice, but it is surely doubtless that there is at least theoretically a way for a normal member of western society to sacrifice considerably in such a way as to benefit people living in Africa to such an extent that that sacrifice increases the total utility in the world, and that there is no other way to realise that utility gain other than the performance of that sacrifice.

Peter Singer.<sup>25</sup> In this paper and in later work,<sup>26</sup> Singer adopts the extreme position of accepting that we are required to commit such personal sacrifices. However, it is important to recognise that both of these are chiefly works in applied ethics, while the demandingness objection itself is purely normative. Because of the conditions in developing Africa, it is often seen as a paradigm case for considering the demandingness objection. The arguments that I will be providing in the coming chapters can be applied directly to the applied ethics question of what we should do help people living in developing countries around the world, and is to an extent a reply to Singer's position. However, my arguments do not touch upon the theoretical problem of demandingness as a normative question, and if the demandingness objection is effective, even if my arguments largely alleviates it in the case of Africa in our world, then consequentialism will fail as an adequate moral theory and will not stand as the foundation for my project after all. Thus, I will now consider the demandingness objection as purely a theoretically normative problem, posed as an objection to consequentialism.

There have been many attempted solutions to the demandingness objection. I will briefly outline what is considered to be one, if not the most, promising solution. This promising solution is to adopt a weaker form of consequentialism than has been described so far: this general strategy is often called 'moderate consequentialism.' In simple consequentialism the goal is entirely the maximisation of utility. A moderate stance accepts that we need a theory where this is not always the case. One prominent form of this is Scheffler's 'Hybrid View,' and it is this position that I will now describe.

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<sup>25</sup> Peter Singer, "Famine, Affluence, and Morality," *Philosophy and Public Affairs* 1.3 (1972): 229-43.

<sup>26</sup> Peter Singer, *The Life You Can Save: Acting Now to End World Poverty* (New York: Random House, 2009).

The Hybrid view allows consequentialists, in certain circumstances, to put their own interests ahead of an alternative programme that would maximise utility. “[Hybrid conceptions] retain the initially plausible consequentialist idea that it is always permissible to do what would lead to the best overall outcome, while at the same time accommodating those anti-consequentialist intuitions that do seem theoretically well-founded.”<sup>27</sup> The mechanics of Scheffler’s theory involve the adoption of an ‘agent centered prerogative’ that Scheffler introduces in *The Rejection of Consequentialism* and describes in more detail in “Prerogatives Without Restrictions.”<sup>28</sup> Broadly to summarise, an act is permissible for an agent, if that agent gains  $M$  times more utility than is lost totally by doing  $P$  rather than  $A$ . Thus, an act  $P$  is permitted if  $(U_i(P) - U_i(A)) * M > (U_t(A) - U_t(P))$ , where  $P$  is the state of affairs created by the preferred act for the agent,  $A$  is the state of affairs given the utility maximising act,  $U_i$  is a function that gives the utility for the individual agent, given a state of affairs, and  $U_t$  is a function that gives the total utility in the world, given a state of affairs.<sup>29</sup> Of course, after adopting such a position, the debate turns to finding an adequate multiplier to reduce the demands of consequentialism to a more acceptable level, but not so much as to eliminate our moral obligations completely.

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<sup>27</sup> Scheffler, *The Rejection of Consequentialism: a Philosophical Investigation of the Considerations Underlying Rival Moral Conceptions*, 116.

<sup>28</sup> Scheffler, “Prerogatives Without Restrictions,” 377-97.

<sup>29</sup> Scheffler, “Prerogatives Without Restrictions,” 378. Scheffler actually writes, “The total net loss to others of his doing  $P$  rather than  $A$  was more than  $M$  times as great as the net loss to him of doing  $A$  rather than  $P$ ,” and this is properly expressed as  $(U_t(A) - U_t(P)) > (U_i(P) - U_i(A)) * M$ . However, it is clear, from the rest of the essay and *The Rejection of Consequentialism*, that the following intuitions are true for any correct formulation of his position: If  $M$  is equal to 1, then the position is identical to that of simple consequentialism, and the more one benefits directly from an act, the more cost to total utility is possible with that act remaining permissible (and *vice versa*), and the larger  $M$  is, the more one is allowed to pursue personal objectives at the expense of total utility. These intuitions are all false given Scheffler’s actual formulation, and this problem is solved simply by flipping the direction of the ‘greater than’ relation, which is, therefore, presumably what Scheffler intends.

### Combined Consequentialism

Finally, solving both the alienation and demandingness objection requires constructing an intricate theory of consequentialism. Tim Mulgan in *The Demands of Consequentialism* puts forward such a view. Mulgan draws a distinction between what he calls the realm of necessity and the realm of reciprocity. Our interactions with agents is then defined into one of these two realms depending on our and that agent's circumstances. The distinction between the two realms is drawn because of a further distinction between needs and goals. Mulgan argues that an adequate theory of consequentialism has to define wellbeing in such way as to accommodate these as being separate. We will discuss defining utility in more depth in the following section, but the essential feature of Mulgan's position is that we must treat differently people who are not having their needs met, from people who have their basic needs for survival met and are pursuing a variety of goals and that come into direct contact with us. Essentially, our relationship to people in developing countries is within the realm of necessity, while our relationship with other people living in developed western nations is normally one of reciprocity. Mulgan describes a consequentialist position that utilises a hybrid theory (though he modifies Scheffler's original position by adjusting M depending upon the benefits P creates for the agent, this has the effect of smoothing out some other difficulties that can arise for the traditional hybrid account, but due to space constraints, we shall not consider further)<sup>30</sup> for the realm of necessity, and one that uses an indirect account in the realm of reciprocity.

This position is especially intuitively plausible when tackling the demandingness objection, because it is difficult, if not impossible, to have a consequentialist account of morality that is adequate for solving the moral questions that we come across in our everyday lives, that

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<sup>30</sup> Tim Mulgan, *The Demands of Consequentialism* (Oxford: Oxford University Press 2001), 268.

applies effectively to demandingness. That being said, there are presumably many ways to accommodate this distinction effectively. One may adopt one's own definition of utility that does not allow for the separation of needs and goals as Mulgan's solution does. It would still be quite plausible that another distinction similar to that of reciprocity and necessity could be drawn, and that this distinction too would allow for a combined approach of a hybrid view that applies to our dealings with people that we do not come into regular contact with (like those in great need in Africa), and an indirect or rule consequentialist account that describes morality as it applies to those with which we do have regular contact.

Thus I accept a combined hybrid act consequentialist normative theory. I employ a distinction between a criterion of rightness and a decision procedure to solve the alienation objection and I accept that both an agent centered prerogative and a further distinction that separates people living in the developed world from the undeveloped that mitigates demands upon the people living in the developed world further still. However, I fully accept that much aid is required and that the principle of beneficence requires us to aid people in the developing and undeveloped world, so these distinctions in no way destroy our obligations to the poor. They just temper them to the point where we are not required to reduce ourselves to poverty to help them.

### **1.3 Defining Utility and Rationality, Globalisation, and Poverty and Development**

#### **Utility and Rationality**

A normal and important step in fully developed consequentialist approaches to ethics is defining utility or welfare, and rationality. For our purposes it is not necessary to specify either rigorously: we shall leave both largely undefined, though I shall lay out a few of the issues at stake. In this essay, I take utility to be basic; I do this for two reasons: first, I think it is a

plausible philosophical position to begin with. Secondly, the normative theory that I have adopted is supposed to be only a generally consequentialist one. Therefore, either one can accept that the notion of utility is basic and cannot be defined in absolute terms, but that we understand it well enough to use it effectively, or one may substitute one's own preferred form of utility. I will attempt to make my own views more clear, while exploring some of the issues surrounding utility. Further, I shall assume that agents are, for the most part, rational, and I define rational as follows: an agent is rational if she always acts to maximise her own welfare. The cases where we are not rational are either because we are mistaken somehow in what our actions (or possible actions that we are considering) will accomplish (for example, we might think that an action will lead to the satisfaction of a certain one of our preferences when in fact it will not), or because we are choosing to ignore our own welfare, for example when we are constraining ourselves due to morality. This is not to say that I think that acting morally is irrational in the way that the term is broadly used in discourse, rather that it is not rational in the way that it is generally applied in standard economic theory, which is how for the moment I am using the term. For example, when choosing between options on a dessert menu at one's favourite restaurant, one chooses the option that will lead to one's own greatest satisfaction. Thus, rationality (in the economic sense of the word) is the disposition to engage in the behaviour that brings about the most welfare for the agent in question.

The most common approach to utility in economic and consequentialist theory has been that of preference satisfaction. In this approach we are all assumed to have different degrees of preferences for certain goods and services as well as our own free time. If it is assumed that we are rational as I have defined the term above, then we maximise our own utility through selecting and actively pursuing our individual optimum balance of all of these preferences. As each of us

has, to some extent, our own unique preferences, we behave quite differently from each other. One person may seek employment in a high paying but demanding job that doesn't allow much time off, while another, who values his free time more highly might select a lower paying job, but with less hours. Thus, in standard economic theory utility and rationality go hand in hand, and a huge amount of human behaviour is explained by it, especially what is generally considered to be economic behaviour, such as working, investing, and trading.

However, this position leads to a rather surprising conclusion: we are all as happy as we can possibly be, even the people who we might think are especially unhappy. Consider an unemployed homeless person. Given this standard approach of taking utility to consist entirely of preference satisfaction of rational agents, we are forced to accept that this person is generally as happy as he can be. Now that may not be very happy, but assuming that he maximises his utility by balancing his preferences accordingly and that he is completely rational in the standard use of the term in economics, then we have to conclude that working to provide an income adequate to buy shelter would not be the ideal balance of his preferences, or that's what he would do. We might say that he simply values his free time much more highly than the average person, or that perhaps strangely he is unaware of the benefit of shelter. Unfortunately, both of these answers are preposterous.

Clearly, something has to give, and my solution is to modify the preference satisfaction component of utility.<sup>31</sup> Unfortunately, I cannot elaborate as far as I would like to on what utility

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<sup>31</sup> Clearly, it is also possible to abandon rationality, as I have defined it above, and this may be especially tempting as I have already admitted that in some cases (such as when we are restraining ourselves due to morality) we do not behave rationally. However, this betrays a misunderstanding of the sense that I am using the term 'rational'. Clearly, in the ordinary sense of the word 'rational' the homeless person is behaving in an irrational fashion. However, he is constantly making choices between different courses of action, and at the time of those choices, he is making the choices that make him happiest, or the choices that create the optimum balance of his preferences. Thus, it is the

is. As I have said, I consider it a basic concept that cannot be completely specified. The reason we use it is because it is extremely effective when doing economics and attempting to solve problems such as poverty. My concept of utility is a blend of the following hierarchy: the fulfillment of the needs for survival, establishing and achieving our own goals or projects (for example running a marathon, or starting a family) and living comfortably (for example with internal plumbing and access to sought after consumer goods). Thus the more of these that a person has, the higher the utility that person enjoys. By adopting this basic definition of utility, we solve the above problem. The homeless man is behaving irrationally (in the normal use of the word), because he has irrational preferences as it were. To maximise his true (basic) utility, as opposed to only his preferences, he should be working to provide shelter for himself. In *An Inquiry into Well-Being and Destitution* Dasgupta writes “we will call the degree to which a person is flourishing his flow of *well-being*. For analytical convenience we will on occasion think of it as a numerical measure of flourishing. But the concept is elusive, and at the end we will arrive at only a very limited understanding of it, and that too circuitously.”<sup>32</sup> This captures, I think, the approach that I wish to take to utility. Though, it is worth mentioning that Dasgupta continues in *An Inquiry into Well-Being and Destitution* to define wellbeing considerably further, by including both a preference satisfaction account, as well as access to the goods needed to survive and a description of freedom, that I take to be an attempt to formalise what I described above as the ability to pursue one’s own projects. I don’t share Dasgupta’s optimism for finding

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preferences that are, using the ordinary meaning of the word, irrational, which is why I focus on them as being the culprit.

<sup>32</sup> Partha Dasgupta, *An Inquiry into Well-Being and Destitution* (Oxford: Oxford University Press, 1995), 34

such a well defined solution, but if such a solution is possible, then this is surely as good a start as any other.<sup>33</sup>

There is another famous problem for defining utility effectively: Nozick's experience machine thought experiment.<sup>34</sup> Nozick's experience machine is an attempt to thwart another proposal for defining utility, that of hedonism. A hedonist believes that utility is simply pleasure, and that a utility maximising world is one in which the most amount of pleasure is realised. Nozick proposes that perhaps a machine could be built that causes any user of that machine to experience great pleasure. This could be an equal amount of pleasure to that of achieving many great things, possibly the achievement of far more great things than any person could actually accomplish. The details of exactly how the machine works are irrelevant, so long as it is assumed that whatever kind of fulfilment that is defined as the ideal good is achieved. He then asks the question, if such a machine was possible, would you allow yourself to be put in it and left in it for the rest of your life (assuming of course that your life would last the same length as before)? The conclusion that he is motivating is that one should refuse, because there is more to life than simply the experience of whatever pleasure one would get in the machine. Nozick's thought experiment is widely seen as a decisive counterexample to hedonism. It can be made even stronger, perhaps, by considering a machine that would replicate the life one was already going to have. Suppose that plugging oneself into the machine would not change the phenomenal character of your life in the slightest; the machine would be able to detect exactly how your life would have gone had you not plugged into it, and produced the identical experiences for you, as

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<sup>33</sup> Formally, Dasgupta defines an individual  $K$ 's welfare as follows, where  $U$  is function of an agent's preferences,  $\mathbf{a}$  is vector of all actions taken by all agents,  $H$  is the state of an agent,  $Q$  is a function of an agent's freedom,  $A$  is the set of actions that an agent can plausibly take, and  $\mathbf{a}_{-k}$  is the vector of all actions except  $K$ 's:  $W_k(U_k(\mathbf{a}; H_k), Q_k(A_k(\mathbf{a}_{-k}, H_k)))$ . Thus  $W_k$  is made up of  $U_k$  and  $Q_k$ , which are dependent on, in the case of  $U_k$  the state of  $K$  and the vector (what might be thought of as the equilibrium) of all agent's actions and, in the case of  $Q_k$ , what is actually possible for  $K$ , given the state of affairs, and what every other agent will do. (60-70)

<sup>34</sup> Robert Nozick, *Anarchy, State, and Utopia* (Malden: Blackwell, 2008).

if you had not in fact plugged into it. Would you then plug into the machine? Surely the answer is no, because we value, at least to some extent, genuine experience. However, a hedonist would have no way of distinguishing between the two choices, as far as she would be concerned it would make no difference to her whether she was plugged in or not. While Nozick's experience machine targets hedonism, it is clearly an objection that all accounts of utility must overcome, and I suggest that my solution accomplishes this, because this intuition can be easily added to the mixture. It is the virtue of defining utility as basic that we don't need any more of an explanation of why utility captures the correct intuitions than simply the fact that those are our intuitions and therefore need to be captured by it. This may not be satisfactory to those who demand more rigour in their concepts, but then they are welcome to try and define utility more definitely.

Given my project, I would be happy, even if I had a definite definition of utility that I preferred, to allow almost any other definition of utility to stand as the foundation of this project, because it is irrelevant to this discussion. Either hedonism or a preference satisfaction account would work fine, for example. And in the end, my affinity for defining utility as basic is a pessimism towards doing any better. Time will tell whether a satisfactory account will arise, but it is clear that the notion of utility is indispensable, and it is clear that even if we cannot define it perfectly, that we all know what it is in the end. We know what makes lives worth living and what does not, so in the mean time we can at least use the concept effectively, not only to do philosophy but economics, which is certainly worthwhile. My position is simply that I suspect this is all we are going to get, and further we don't need to do any better, if it is indeed the case that we cannot do any better.

## Globalisation

By globalisation I mean the following: the least hindered trade between as many people as possible; in effect this means the destruction of obstacles to trade such as subsidies and tariffs across national borders (what I shall henceforth call free trade). Secondly, the implementation of free market economic systems in undeveloped regions, and industrialisation and the division of labour in those countries. As for the second part, I am prepared to accept a fairly loose version of this. I consider all western nations to have implemented the kind of policies that I espouse, so I am not limiting myself only to, what many might consider, very right wing economic systems. I am happy to include what is often called ‘the market friendly approach,’ as the guiding principles of what globalisation should entail, though I must admit to preferring what is commonly called the Washington Consensus<sup>35</sup> or at least something similar to it, given that the Washington Consensus is now a rather vague notion. Thus, for my purposes globalisation has two distinct halves: the first is free trade, and the second is western style economic practices and technology; i.e., industrialisation and the adoption of free market economies (as opposed to command economies and ones with massive and unnecessary regulation). In the following section I will outline what the standard benefits of these two halves of my definition bring to societies in general, and how we can understand them using the tools of consequentialist theory.

This definition of globalisation leaves open an objection along the lines that I am promoting cultural imperialism. However, rather than modify my definition of globalisation to try and accommodate this objection, I will attempt to meet this objection head on in the final chapter of this essay, in section 4.1.

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<sup>35</sup> The ‘Washington Consensus’ as a term was coined by John Williamson, “What Washington Means by Policy Reform,” *Latin American Adjustment: How Much Has Happened?* (Washington: Peterson Institute for International Economics, 1990). It is however commonly used in a far more broad way than in his original formulation of the term to describe generally neo-liberal policy.

## Poverty and Development

One of the greatest obstacles to solving effectively the problem of world poverty is an improper understanding of it. Poverty should not be understood in purely relative terms. If poverty is understood in relative terms, then it blends with inequality (which, although it is certainly not something that is to be desired, is a separate problem with separate solutions), and it creates the illusion that growth in the developed world (and any force that creates more growth in the developed world than in the undeveloped, like globalisation, especially in the short term, very possibly does) is a negative force. Using the basic definition of utility that I outlined above allows us not to fall into this trap. This problem can occur whenever a policy or action creates more wealth in an already developed country than in a developing one, even when it does in fact help the developing country.

For example, suppose that a manufacturing plant in a developed western country is built, and it creates a considerable amount of jobs and goods in that country, which are enjoyed primarily by that country's citizens. However, a call centre is created in an undeveloped country, because the company that owns the new manufacturing centre needs it to sell and service effectively the goods that the new plant is making. This could very easily be seen as an event that creates rather than dispels poverty, if poverty is defined in a such a way that the relative wealth of others is a crucial component in its definition. With an absolute view of poverty, this problem is dodged. Any act or event that creates wealth in the developing and undeveloped world will be correctly seen as a benefit, effectively diminishing poverty, and not exacerbating it.

It may seem very counterintuitive to view poverty in this way, because, it may be objected that clearly people living in undeveloped countries are poor relative to us, and surely it

is our relative wealth that obligates us to help them. Further, it seems wrong to say that before the industrial revolution, what are now considered to be, undeveloped countries were poor, even though the quality of life in them was not any better than it is today. Also, surely the people living in, what are now, developed countries would have had no obligations to the people living in, what are now, the developing and undeveloped world, because their lives were not significantly (if at all) better than those peoples' lives. Further, by this definition, everybody would have been poor in these preindustrial times, regardless of how wealthy they were compared to the rest of the population, because all, or virtually all, of us living in the developed world today have access to goods and services that benefit us far more than even the most extravagant luxuries, that were available in those times, benefited the very rich of those days.

This superficially leaves us with a dilemma: either we view poverty as a relative concept, and people in undeveloped parts of the world are poor only because we are so affluent, or we view poverty as absolute, and we have to conclude that before the industrial revolution everybody was poor, lords as well as peons. My solution is to define poverty as follows. Poverty is a lack of utility (defined in absolute terms), when that utility is possible to obtain. This neatly solves our dilemma. People living in undeveloped areas of the world today are poor, because it is possible to raise them to our living standards and increase their utility, but the lords of medieval and prior times were wealthy, given my definition, because there was no available technology or practices that could dramatically increase their wellbeing. Finally, this view of poverty is consistent with a consequentialist morality, because it fits cleanly with principle of beneficence that I have already accepted. We are obligated to help solve the problem of world poverty, because we have developed technology and practices which allow us to do so. Thus, I define development as simply the raising of utility levels in the parts of the world where people are poor

to similar levels as those enjoyed in developed countries. As we shall see, by far the best way to achieve this is not through fair trade, but through globalisation and free trade.

#### **1.4 Benefits of Adopting Consequentialism**

There is another benefit to adopting consequentialism, or at least of using the language of consequentialism. It allows us to describe the benefits of development clearly. We can now consider how several of the definitions which I have given in the previous section can be combined to describe two pertinent ways in which people increase their wellbeing, through trade and technological innovation. The consequentialist framework that I am employing proves especially useful in describing the benefits to society that trade and technology bring.

Let's begin with trade, which is pertinent to our discussion in two ways. First, trade simply increases the utility of the parties involved, assuming that they are rational, because agents that are rational only take actions that benefit rather than harm themselves. This can be illustrated with the following example. Suppose that there are two people (Alison and Barney), both of which enjoy mountain biking, but that one of those people, Alison, enjoys mountain biking considerably more than Barney does. Alison owns, as we might expect, a much nicer mountain bike than Barney, (suppose that it costs £1000 to buy).

Barney does not enjoy mountain biking nearly enough to justify such a bike, so he has a much less expensive model that he uses. He would prefer the same model that Alison uses to the one that he has, but he is only prepared to pay £500 for it, because he could find another use for any more money than that, which he would enjoy even more. In other words, had he spent his money on this more expensive bike, he would not have been maximising his personal utility, because there was another option that would have created a better result for him. As he is rational

in the way that we defined above, he chose not to buy that model of bike at that price and bought instead a cheaper one for an amount of money that did maximise his personally utility.

Now let's suppose that Alison decides to buy an even more expensive mountain bike than the one she already possesses, and this greatly decreases the value of her first bike to her, because now that she has a new bike, she has a far reduced use for her old one. Let's assume that it is now worth only £100 to her, as a stand-in that she would use on the rare days when her new bike needs to be sent to the shop for maintenance.

Suddenly, there is an opportunity for a trade. Barney can buy Alison's old bike and create a surplus of utility (which for simplicity's sake, for now we shall leave in Pound Sterling). As long as Barney offers more than £100 for the bike, Alison will be better off than she was before, by however much more than £100 Barney offers. And as long as Alison demands no more than £500, Barney will be better off by £500 less whatever he pays. There is exactly £400 worth of surplus to be had, and depending on the bargaining position (and bargaining skills) of the two agents involved, that surplus will split between them. Thus if Barney pays £400 for the bike, he will enjoy £100 of the surplus, while Alison will enjoy £300 of it, or if Barney pays £200, then he will enjoy £300 of it, while Alison would have a surplus of £100.

The above example uses pounds, but it can work just as well using utility. We can change the appropriate amounts to utils and the example yields a similar result. Alison gets 100 utils from her old bike (having it increases her personal utility by 100) once she has acquired her new one. Barney would get 500 from it, which is less than the equivalent amount of utils that the £1000 would bring him needed to buy the same model of mountain bike from the bike shop. Alison and Barney will trade so long as the amount of money that changes hands is worth more

than 100 utils to Alison and less than 500 utils to Barney. In fact, this second example illustrates far more accurately how economic transactions occur, because obviously utility doesn't correlate perfectly to currency, as different people will value currency differently, depending, among other things, on how much of it they already have. However, while not correlating perfectly with utility, currency is a fairly effective guide to utility, because it is currency that people trade for the goods and services that they want, and currency is in general far more easy to quantify than utility, so it is often easier to use money rather than utility when doing economics, and thinking about problems that economics especially pertains to, like development and poverty.

Further, it is worth noting that the relationship between a worker and an employer is essentially the same as the simple example given above. A worker works for a company, if that company will give that employee more money (or utility) than that employee can get elsewhere, and a company will hire an employee if that company will be able to sell the goods or services for more money than it has to pay that employee in wages. Again, it is the bargaining power of the two sides that determines how this surplus is divided between them. If there is a labour shortage and high demand for labour, then the employee can be expected to receive a larger share, while if there is a labour surplus and many people all competing for a single job, then the employer will have the advantage and claim a higher percentage of the surplus.

The second way trade is generally viewed to benefit a society is through comparative advantage. This principle states that a country is better off trading a good that it can produce to a second country that can already make that good for less than the first country. This can be illustrated on an individual basis with a similar example as Alison and Barney.<sup>36</sup>

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<sup>36</sup> Many readers will notice that this example is based on the famous lawyer and clerk example that is ubiquitous in economic textbooks, for example Paul Samuelson and William Nordhaus, *Economics: 12<sup>th</sup> Edition* (New York: McGraw-Hill, 1985) 834-5.

Suppose that a surgeon and a philosophy graduate student are living as neighbours. The surgeon makes £200/hour, while the graduate student makes a more modest £12/hour working as a TA. Let's also assume that the surgeon needs to tend to menial tasks in her garden once a week and this takes up an hour of her time, which she could be working as a surgeon.<sup>37</sup> The graduate student is a relatively ineffective gardener, and it takes him 2 hours to do the same job to her one. However, if she employs him to do the task (and spends the hour she saves working), despite his horticultural ineptitude, she is advantaged so long as she pays him no more than £100/hour. Similarly, so long as the graduate student is paid more than the £12/hour that he could otherwise be making as a TA, he is advantaged as well. Thus, even though the surgeon is a better gardener than the graduate student, they are both advantaged by him performing that task.

Another pertinent point is how this ties into the importance of defining poverty properly, as absolute rather than relative. The above example clearly enhances the lives of both parties and is a utility gain to the world as a whole,<sup>38</sup> but assuming that the bargaining position of the highly paid surgeon is superior to the graduate student, (not an unlikely assumption given the relatively unskilled nature of the work) it is probable that the wage that is settled upon will be much closer to the £12/hour that is the minimum he will accept, rather than the £100/hour which she will not pay above. Suppose that they settle upon £15/hour. Let's also assume that they continue to work the same amount of time in total as they would have before, but only in the new jobs. The graduate student will work 2 hours more as a gardener and 2 hours less as a TA than he was before, and he will make £30 in those two hours rather than the £24 he would have otherwise.

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<sup>37</sup> For simplicity's sake, we shall assume that performing these particular tasks in her garden is not something that she enjoys as recreation.

<sup>38</sup> Further, the reason that surgeons are so highly compensated for their work is because it provides a valuable service to society on the whole, so there is even an additional benefit to society, as there will now be an additional hour of medical treatment being provided in general. However, this is a benefit that is harder to quantify exactly in this example, so I will only mention it here as an aside.

The surgeon will also work the same amount of time as before, but she will make £200 in that hour, less the £30 she pays to the graduate student. While the graduate student is benefited by £6, the surgeon is benefited by £170. Thus, this mutually beneficial relationship will have the effect of increasing inequality considerably, while it will also reduce poverty. It is important that we define poverty in such a way that the inequality (which while not a good thing in itself) doesn't tarnish the benefit to the poorer participant to such an extent that it appears as a negative rather than a positive force for all concerned.

A similar phenomenon may often happen with globalisation, and it is often assumed that the growth created is negative, because of the inequality of the distribution of that growth, but inequality and poverty are separate problems. It is essential to focus on the increase in total utility for both sides (especially for the poorer graduate student, even if he only enjoys a small amount of the surplus created), because in real terms poverty is reduced. The graduate student in the above example now has £6 more to spend on food (or beer) than he had before, and in the developing world starvation is a far more acute problem than inequality, and food is cheap enough that a little growth can go a long way to alleviating starvation.

Finally, let's consider how it is possible to understand the benefits that technological and production innovation bring to a society through economic and consequentialist terms. It is clear that one of the major reasons why we enjoy a much higher standard of living than our ancestors before the industrial revolution is because of both superior technology and practices, such as the division of labour and economies of scale. By using economic and consequentialist terms as defined in the previous section, we can very effectively explain how these advances create utility. Let's consider the example of a small town with 100 people living in it.

For simplicity's sake let's assume that this town is inhabited with only working adults. Let's also assume that all of the inhabitants are perfectly rational, in the sense defined in the previous section. That is, every person does exactly what will maximise his or her own personal utility, and each person knows exactly how to do this. They all work just as hard and as long as they want to, to earn just enough money to buy the goods and services that they want. If any of them worked any less, then there would be a good or a service that he or she would not be able to afford that would be worth working a little extra for, and if any one worked any more, then there would be no good or service that would be as valuable as the equivalent amount of free time that that person lost in the process which that person could buy. We will also assume that there is no cost in changing professions to deliver a different good or service. Effectively, our little town is a perfectly efficient economy.

Thus, in this town all the jobs that create the most utility to society are being filled, if a person becomes a butcher, it is because that is the service that is most in demand from the population, and thus by providing it that person will maximise his return, because he will be able to charge more for that service than any other alternative and by that means maximise his utility. If he selected a less in demand service to fulfill, then people would value their free time more highly than that other service sooner than had he been a butcher, and he would therefore reduce the amount that he could charge for that service, and this would clearly not maximise his utility. Thus, if the town has no butcher, it is because there is some other service that is demanded more highly from the population as a whole than butchery, and it would be a utility loss for the town were it to have a butcher, because it would necessarily come at the expense of something else more important.

It is important to note that this is only the ideal society assuming that all the people in the town are ideally rational in the economic sense of the word. It is very possible that if people sacrifice their own wellbeing for the good of others, then there may be an even higher possible utility score, but for the sake of this example we shall leave that possibility aside.

Let's assume that the town has 4 farmers, and that these farmers produce all the grain that the townspeople need. Let's also assume that the farmers have plenty of farmable land, and that the reason that anyone of them doesn't produce more grain is simply because she is limited by her own manual labour. Let's also assume that nobody maintains a golf course for the town (and that there is no antique dealer or goat cheese maker in town either), because all townsfolk are employed in more utility maximising jobs. However, the service that people want the most that they do not have access to is a golf course, followed by an antique dealer and then a goat cheese maker. We can describe the town by listing all of its inhabitants 1-100 and each of their jobs as well as the average utility that those jobs provide to the citizens of the town. Let's suppose that the utility created by the different jobs that people provide looks like this.<sup>39</sup>

Job	Citizen #	Utility provided on average to a citizen of the town
Farmer (x4)	1,2,3,4	800 (200 each)
Clothier	5	160
Builder	6	140
...	7-96	70 (on average)
Baker	97	30
Florist	98	25
Hair Dresser	100	20

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<sup>39</sup> The following is clearly a crude analysis. It doesn't take into account many complicating factors such as externalities etc. The point that it is trying to illustrate is a simple one however, purely how the benefits of technological advances can be understood effectively in terms of consequentialist terminology.

Greens Keeper	x	18
Hairdresser	x	17
Goat Cheese Maker	x	16

Thus, the average person receives 7405 utils from the goods and services provided by the jobs that the citizens of the town perform. Now suppose that a new technology is developed (like a tractor that allows one to plough far more land than could be ploughed before) that enables farmers to vastly improve their productivity. Suddenly, where four farmers were needed to perform the most vital task in the town, providing grain, now only one is required. Because this town is perfectly efficient, immediately three of the farmers switch to new jobs, while the other farmer uses the tractor to continue to farm and produce four times as much food as he was before. The economy still has an equal amount of food in it, so the utility provided by farming remains the same. However, now three more jobs are being performed than before, and there is a surplus of 51 utils created. One farmer begins to maintain a golf course, while another takes up antique dealing, and the last becomes a goat cheese maker, and each person in the town enjoys 7456 utils on average provided by the goods and services that the towns people create through their labour. Crucially, the amount of people in the town has remained constant, but the amount of utility that they each enjoy has increased. This is the benefit of superior technology and practices, and we shall see in chapter 3 how globalisation uses this force to help the developing and the undeveloped world.

A similar process to this, only on a much larger scale occurred in developed countries since the industrial revolution. Industrial agriculture means that now most developed countries devote less than 5% of their labour forces to agriculture, while developing countries commonly

have over half of their labour forces engaged in agricultural activities.<sup>40</sup> Clearly a far larger amount of people in developing countries farm than in developed ones. This is obviously because food is such a basic need, and any person unable to find other work will naturally try to produce food so as to at least feed herself and her family. But this also illustrates the importance of an industrialised economy.

It is impossible for a number of the jobs that are essential for our quality of life in developed countries to be performed with such a large portion of the population farming, and hence the goods and services that those jobs would provide are not available in developing countries. These jobs never will be performed when there are such shortages of food (which is perhaps a good reason to provide it in the form of aid, but a far better solution is to develop economies that produce food within those countries). In a developed economy being a trained air traffic controller is a valuable skill, which is why air traffic controllers are well compensated for their labour, but in an undeveloped economy like Niger, it is a nearly worthless skill, because not only are there no airports to work in, even if there were, there would be almost nobody prepared to spend his money on such frivolities as air travel, when he is barely able to feed himself and his family, let alone have indoor plumbing.

It is generally well accepted that trade and technological advances improve our lives. But these phenomena are especially well described using economic language, and economic language is effectively the language of consequentialism. Thus, a considerable benefit to

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<sup>40</sup> For example, here is the labour force devoted to agriculture for the following developed countries according to the CIA World Factbook (as of September 2010): Australia 3.6%, Canada 2%, France 3.8%, Germany 2.4%, United Kingdom 1.4%, and the USA >.7%. However, here are the percentages of the labour forces devoted to agriculture for some of the least developed countries, also according to the CIA World Factbook: Bangladesh 45%, Chad 80%, Kenya 75%, Niger 90%, Tanzania 80%, and Uganda 82%.

discussing development and globalisation is adopting a consequentialist moral theory, because the question of how to bring development about is largely one of economics.

### **1.5 Economics and Philosophy**

At times, it may appear that my project treads dangerously close to the field of economics. Not that doing economics is in any way an ignoble pursuit, but that it is only an appropriate pursuit within that actual discipline. Thus in this section I will deal with two concerns: first, that I am actually doing economics and not philosophy at all. Secondly, I will examine the close connection between consequentialism and economics (especially normative economics) and the dependence of the latter on the former and not the other way around. I will also attempt to meet certain criticisms levied towards moral theories that utilise economics.

As my topic will centre around the moral issues concerning developing countries, it is essential that, as a consequentialist, I focus on what economic theories can tell us about how countries develop and what policies help and hinder this cause. Similarly, if my topic was how ordinary citizens can foster world peace (perhaps even more ambitious a project) and prevent conflicts and wars, as a consequentialist, I would need to concern myself with, among many other things, the theories of International Relations. However, such an endeavour would not constitute work in the discipline of International Relations, because there would be no new ground being broken in that field. The project would instead focus on what we should do, given what International Relations' theories tell us about how wars are created and prevented, to foster world peace. While doing so, it would be appropriate to explain and summarise these theories. It would also be necessary to justify using certain theories of international relations as opposed to others, and it would be necessary to justify the effectiveness of the theories that one settles upon,

but it would only be necessary to justify these theories to the extent required to create a compelling work of philosophy. Largely, why the theories themselves are correct would be a question for the field of International Relations. However, what we should do because those theories are correct, is a question for applied ethics, and this is what my project attempts to do, and hence this is what my project attempts to be –a work of applied ethics.

Thus, my project will use a fair bit of economic theory. I will attempt to justify the economic theory that I use to the extent that it is controversial. As a consequentialist, it is absolutely essential to focus on the consequences of our actions and policies, and it is economics that provides us with those, and that is why I require it, not because I am doing economics and smuggling it into philosophy.

It is important to emphasise that the relationship between consequentialist ethics and economics that I assume has a distinct hierarchy. It is consequentialism that grounds normative economics. First we assume that the best world is one where as many people as possible have as high a utility as possible. Then we set out trying to figure out how to accomplish this. It is here that we begin to use economics and begin to make the assumptions that are keystones of economic theory, such as everybody being rational (in the economic sense of the term) etc. This results in substantial criticism of such philosophy however, because without the proper hierarchy, these assumptions become rooted in the normative position rather than the economic theory.

So let us now look at this criticism, that philosophy that relies too heavily upon economic theories and assumptions is inadequate. For example, Mulgan criticises Guathier's theory of

Contractarianism<sup>41</sup> for relying too heavily upon (especially) a preference satisfaction account of utility, and he generalises this to many similar contractarian and consequentialist theories as well.<sup>42</sup> He charges that Gauthier both “Ignores basic needs, as his bargaining situation implicitly assumes that individuals can survive without interacting.” And “Gauthier’s account of rationality ignores the subtle complexity of goals, especially their interpersonal competitive rather than cooperative terms.”<sup>43,44</sup>

Mulgan’s second criticism is the most easily circumvented of the two, especially by accepting the solution that I adopted earlier and rejecting the preference satisfaction account of utility, (something that Mulgan would himself be sympathetic to) but it is Mulgan’s first criticism that is most relevant to our project now. While it is true that standard resource allocation theory assumes that every agent can survive without interacting, this is not nearly as fatal a problem for this theory, or for the philosophy that employs economics that relies upon it, as one might at first expect. The problem is clearly most acute when dealing with economies where indeed many people are either starving or malnourished. These economies have massive food shortages, but not necessarily to such an extent that starvation is theoretically unavoidable. In fact, there may be enough food to go around if it was distributed more equally, or plausibly, even if there were not enough food to go around, there would be enough food if other projects were abandoned (perhaps, for example, if one of the few extremely wealthy people, possibly a

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<sup>41</sup> Guathier, *Morals by Agreement*.

<sup>42</sup> Mulgan, *The Demands of Consequentialism*, 205.

<sup>43</sup> Ibid.

<sup>44</sup> It is worth noting that Mulgan develops this first criticism of Guathier significantly further, Tim Mulgan, *Future People* (Oxford: Oxford University Press, 2006). However, Mulgan relies on problems that Guathier faces because of his theory’s inability to accommodate our obligations to people in the future. The objections that Mulgan utilises here are ineffective against using economic assumptions in the context of world poverty now. (See *Future People’s* second chapter, especially pages 24-38.)

warlord, who lives in the economy in question, decided not to build yet another private golf course for herself, but instead allowed the site to be used to grow grain).

The problem is the normative position that we have accepted about the situation before considering the theory. Clearly it is ethically unacceptable in an ideal world to have people starving to death. However, the standard theory of resource allocation should be seen as purely descriptive. It assumes that all agents are rational (in the technical economic sense) and that they will trade resources only when it directly benefits them. Thus, there may be large amounts of resources that could be used to feed the starving people, but they won't be used to do that, according to the theory, if the people who own those resources are not benefited by that trade. Thus in the cases where this occurs, the problem is not the theory of resource allocation, because it predicts how resources will be distributed assuming that agents think only of themselves, and the amount of resources that one needs to survive is not a component of that allocation. It may be the case that the theory is flawed for other reasons, for example because agents are indeed not rational in the technical economic sense of the term, but it is not flawed because it predicts that in many cases resources shall not be distributed in such a way that everybody can survive, even when there are enough of them to accomplish this were they equally divided, because people do starve to death.

Assuming that the standard theory of resource allocation is true<sup>45</sup>, the question then becomes what should we do to increase total welfare so people don't starve? Thus, we need to work within the bounds of economic theory when evaluating what we should do to try to solve issues concerning poverty. This illustrates perfectly the proper connection between

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<sup>45</sup> Obviously, not strictly speaking true, but that some form of non-ideal theory that closely resembles the standard theory of resource allocation is true.

consequentialism and economics. Consequentialism, in general terms, sets the ethical goal to create as much welfare as possible. Economics tells us how to actually do that, given some assumptions about how people behave and how the world is. In effect, normative welfare economics turns out to be applied consequentialism. Thus it is this approach that I have adopted to tackling the issue of poverty.

## Chapter 2

### Introduction

Before we begin, it is worth noting that there is a relevant distinction to be made between competing conceptions of fair trade. By fair trade, I mean buying goods for more than market value (what I am essentially calling a free trade good), with the intention of aiding the producer of that good. We might call this positive fair trade. This is by far the ethically stronger position, at least in consequentialist moral terms, to its alternative, which I shall call negative fair trade.

Negative fair trade is a position where its proponents argue that we should boycott goods that are produced in a manner that does not allow the workers who make those goods to live up to our (or some set minimum) living standards, and we will discuss how this is effectively setting a price floor, and why this too, in general, has serious theoretical problems. As by far the stronger philosophical position is what I called positive fair trade above, we will concern ourselves far more with it, as opposed to the alternative which we will only briefly look at in section 4.3. Thus, we shall concern ourselves with positive fair trade here, and only briefly examine negative fair trade later.

In this chapter we compare free trade to fair trade directly. We will begin in section 2.1 by considering generally what occurs when an industry is subsidised. I will first argue that effectively fair trade is a form of subsidisation, and then we will look at the problems that subsidisation generally leads to, regardless of the specific implications. In section 2.2, relying heavily on an essay by Yanchus and Vanssay, we shall look at some of the general theoretical

problems discussed in 2.1 as directly applied to fair trade and free trade: i.e. we will look at why even if many practical problems are assumed away, free trade and a direct transfer of the difference in cost between the price of free trade goods and fair trade goods is more beneficial than fair trade. In section 2.3 we shall explore this alternative directly and I will argue that we should adopt such a policy as it is ethically superior to fair trade. I.e., I will suggest that instead of engaging in fair trade, it is better to buy equivalent free trade goods and donate the difference in price between those goods to acceptable charities.

After section 2.3, we shall then begin to move towards more practical arguments that demonstrate further reasons to prefer free trade plus a donation to charity rather than fair trade. The goal of these sections will be to show that the ‘aid component’ of fair trade is less ‘targeted’<sup>46</sup> than alternative forms of aid, and that this means effectively that it is less efficient and less desirable than these alternatives. In section 2.4, we will see why this is the case employing some basic assumptions about economies of scale.

In section 2.5, we will consider another problem with fair trade, that of cash crops’ value dramatically fluctuating because of bumper crops being produced both locally and globally. Specifically, there is another danger of subsidising particular agricultural products in situations where there is poor access to capital, farming technology and practices that would allow for farmers to easily change the crops that they grow, and there is also poor access to futures markets that would otherwise protect farmers from the sometimes dramatic fluctuations in the prices of their cash crops, which are often caused by bumper crops and simply poor planning.

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<sup>46</sup> I will define what I mean by the ‘aid component’ of a fair trade good and aid ‘targeting’ shortly.

In section 2.6, we will discuss another practical problem with fair trade: that in practice it aids (especially in the coffee industry) the most inefficient producers and thus provides an incentive for them to continue to farm and effectively drive down the price of coffee and discourage modernisation. This occurs because it reduces the potential profits of an alternative industrialised plantation, and this reduced potential slows the process of development down, because there is less of an incentive for entrepreneurs to develop these techniques.

Finally, before moving into the first section of this chapter, I will quickly discuss two concepts that I will now define: how I use the term ‘targeted’ in the context of aid, and what the ‘aid component’ of a fair trade good is. Further, I will make explicit an assumption that I do not require for any of my arguments, but one that certainly helps my cause significantly if one (as I do) accepts it.

I shall define targeting as the extent that aid accomplishes its objective of increasing the welfare of the people that it is supposed to help. Thus the more targeted aid is, the more it increases the welfare of its intended beneficiaries given the set cost of that aid. What I shall refer to as ‘untargeted’ aid is aid that performs no better at increasing the welfare of its intended beneficiaries than simply directly and randomly giving the people who live in the region an equal amount of money that that aid would have effectively cost. Thus, if I had one million pounds of aid to help people in an undeveloped region of the world, and I simply went around handing it out in equal amounts to whoever I came across, regardless of whether the people I came across were warlords or starving to death, until I ran out of the money, then that would be essentially untargeted aid. Any aid that is less targeted than another, is clearly less efficient, and therefore, if there is a clear case to be made for why one form of aid is better targeted than another, then I shall argue that that form of aid is morally preferable.

When somebody buys a fair trade good, I shall assume that that person wants that product, and would buy that product for its market price if a fair trade equivalent good was not available. Thus any benefit that that good brings to the person who makes it, which is not in addition to the benefit that that same person would have received had it been bought for its free trade price, should not be considered as aid. However, any benefit that that person receives, in addition to the benefit that that person would have received had it been bought for its free trade price, is effectively aid, and it is this that I refer to as ‘the aid component’ of a fair trade good. Essentially, the price of a fair trade good less the cost of an equivalent free trade good is the aid component of a fair trade good. Further, it is only the aid component of a fair trade good that should be considered to be targeted, because the benefit that the beneficiary of that aid receives in addition to the aid component of the fair trade good is only coincidental to that aid.

Further, I hope that it is a fair assumption that some form of targeted aid will be more effective than the way in which a fair trade good’s aid component is targeted. Essentially, giving the money to an ideal charity that operates in the same area that the beneficiaries live in, will help the total population more than giving it to the farmers. This charity could take the form of improving basic infrastructure, like providing clean drinking water, or building schools and hospitals. Because there is considerable debate about the most effective means to provide aid, I will not favour one charity or form of aid over another, simply I assume that there is theoretically an ideal charity that is better targeted than the aid component of fair trade and leave determining what kind of aid that is to economists as it is an empirical question.<sup>47</sup> This assumption clearly

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<sup>47</sup> While there has been considerable debate among economists about the effectiveness of aid, with some arguing that aid has no or even a negative effect on the people that it is intended to help, for example, see Peter Boone, “Politics and the Effectiveness of Foreign Aid,” *European Economic Review*, 40.2 (1996): 289-329, or Keith Griffin and John Enos “Foreign Assistance: Objectives and Consequences,” *Economic Development and Cultural Change*, 18.3 (1970) 313-27. These two papers take actual cases of aid and find that they have been counterproductive, or best case scenario, ineffective. However, as they have examined actual cases, they do not show that there is not

makes my position considerably stronger and is reason to adopt my conclusion about fair trade in itself. However, none of my arguments require this assumption in any way, and all of my arguments that proceed in this chapter are independent of this assumption.

## 2.1 Subsidising Industries

The first question that we must answer is what is the difference between subsidisation and charity and why should fair trade be seen as effectively both. Normally subsidies are imposed upon one segment of the population for the benefit of another, but in the case of fair trade it is not. In fair trade the first segment is voluntarily paying a higher price for the goods that they consume for the benefit of the second group who produce those goods. Because of this, it is certainly charity rather than normal subsidisation.

Since the aid component of fair trade transactions is charity, there is a temptation by its proponents to rely on this fact to defend it from economic criticisms. Nichols makes two claims, “Firstly, as a consumer choice movement, [fair trade] is outside the scope of government regulation and thus cannot be criticised as an interventionist trade policy. Secondly, by correcting market failures to make the trading system work for everyone, Fairtrade is, in fact, a neo-liberal solution to problems with trade. Fairtrade works within an efficient capitalist system, rather than abandoning the liberal trade model entirely.”<sup>48</sup> While Nichols first point has some merit (the attack he is defending fair trade from is one better directed at what I termed negative

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some form of aid that can be effective. Further, other recent studies have found the opposite, that aid actually is effective even in non-ideal cases where local governments are corrupt and repressive, for example Henrik Hansen and Finn Tarp, “Aid Effectiveness Disputed,” *OECD*, accessed September 08, 2010, <http://www.oecd.org/dataoecd/16/46/2664921.pdf>. Thus, I assume that there is some ideal form of aid at least superior to untargeted aid, though I will leave it undecided as to what that form of aid actually is.

<sup>48</sup> Alex Nicholls, “Thriving in a Hostile Environment: Fairtrade’s Role as a Positive Market Mechanism for Disadvantaged Producers,” *FLO*, accessed August 29, 2010, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2008/a/alex\\_nicholls.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2008/a/alex_nicholls.pdf) 9-10.

fair trade in the introduction of this chapter, which we shall consider in chapter 4), his second point attempts to shield fair trade from too broad a category of criticism. Fair trade is equivalent to a form of direct subsidisation and we shall see that it therefore suffers from the same inefficiencies that plague such policies when they take their more usual form, that of being instituted by a government.

In neoclassical economic terms, subsidisation is almost always (if not only ever) an act of government,<sup>49</sup> for the purposes of promoting an activity for a host of possible reasons, such as trying to break into a higher tech, higher wage industry, or because something culturally significant, like small cheese production in France or building and maintaining theatres for drama companies. This is effectively accomplished by taxing, or in some other way, charging one segment of the population (or possibly the entire population) and redistributing that money to a different segment. However, it should be noted that often such policies have very different consequences than are intended by the government that imposes them. In a simple direct case, subsidisation could take the form of clear cash payments made to members of a certain industry, to encourage them, or it could take an indirect form such as a quota system that artificially limits the supply of a certain good and raises the price above what the market would normally bear. In the first case, all taxpayers would be paying the burden of the subsidy, while in the second only the consumers of the goods (who would be forced to pay higher prices for them than they otherwise would need to) would pay it entirely themselves.

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<sup>49</sup> For example, the *Oxford Dictionary of Economics* defines a subsidy as “A payment by the Government to consumers or producers which makes the factor cost received by producers greater than the market price charged by producers. Subsidies may be given on grounds of income distribution, to improve the incomes of producers or consumers. They are not usually efficient for either purpose[....]” *Oxford Dictionary of Economics: Second Edition*, Ed. John Black (Oxford: Oxford University Press, 2002) Q.V..

Thus, fair trade, especially were it to become far more widespread, is economically equivalent to subsidisation, and we shall see shortly exactly how subsidisation has distorting effects on the market which can have profoundly negative consequences for everybody involved, even the people who appear to be directly benefiting from that subsidisation. We shall certainly see that even if the subsidisation in question is actually beneficial to the people in the undeveloped regions that it is directly targeting, it is certainly not the best means of benefiting those people, and that much more could be done with the same money if it were better targeted.

Let's look now at a common theoretical problem of subsidising industries. As we noted above, governments can subsidise industries in many ways, and it doesn't need to take the form of directly paying the industry in question money in order to encourage it to continue to produce whatever products or services that it makes or provides. However, while this is the most simple case of subsidisation, it is one that is rarely used. Far more frequently governments impose policy effectively to subsidise an industry or an activity without directly paying that industry. Instead other policies designed to promote or protect that industry are implemented, such as instituting price floors or ceilings.

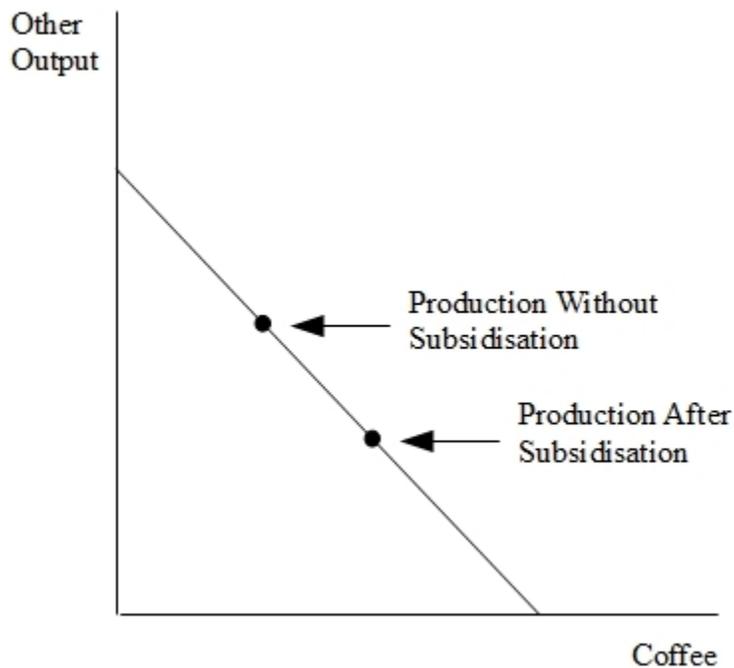
Let's begin by looking at subsidisation in quite general terms, and we shall assume that it is taking the form of an industry being supported by directly paying a premium for every good that is made or sold. This actually represents quite accurately the effect that fair trade has, because fair trade is effectively the direct subsidisation of whatever industry is in question, and it works essentially on a per unit basis of whatever item happens to be being sold.

When a fair trade good, be it a cup of coffee or a chocolate bar, is bought it has the effect of subsidising the relevant industry in the developing world where it was produced. The people

making it are paid a higher rate for it than they would otherwise receive. This has the effect of increasing the amount of those goods that are made, because those goods are more profitable than they otherwise would be. As producers naturally move their production into the subsidised good, this has the necessary effect of reducing the production of whatever alternatives they were producing before the subsidisation.

Suppose we graph the production of a developing economy as follows, on the X axis we shall put the output of coffee (coffee will be our generic good standing for fair trade goods in general) and on the Y axis the output of all other goods. Thus, when coffee is subsidised we can expect the production to shift down and to the right.

Figure 1

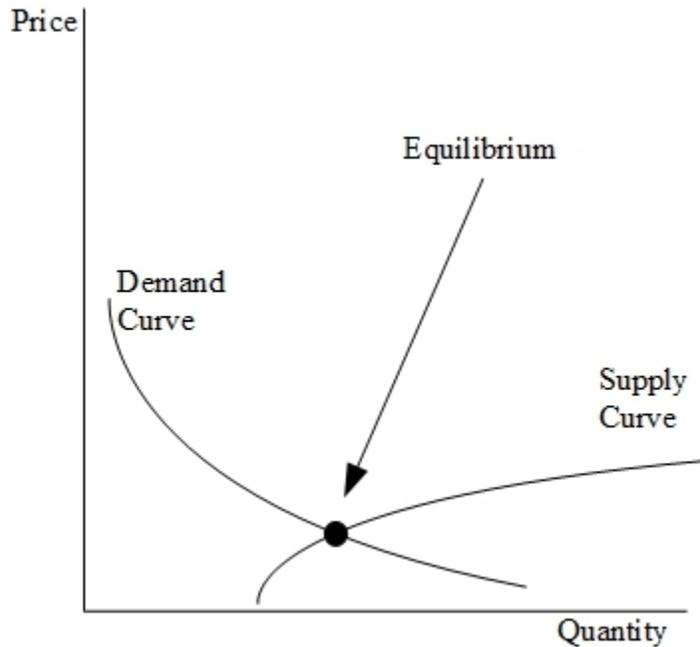


The diagonal line represents every possible production point that is achievable at the economy's maximum output. Every point above and to the right of the line represents more output than the economy can produce, while every point below and to the left is less than optimal. Thus when  $X=0$ , there is no coffee being produced at all, and the economy is producing entirely other goods, and when  $Y=0$ , only coffee is being produced.

A way to illustrate the force which leads to this rebalancing of the goods due to subsidisation is to look at the individual good of coffee in terms of its quantity and its price, which are respectively the X and Y axis in figure 2. Normally within a market, the price and quantity of a good is at (or near) the equilibrium between the supply and demand of that good. The quantity of a good produced (the supply) can be seen as equivalent to a function, where the higher the price of the good, the more of that good is produced. Similarly the demand for that good is a function where the higher the price of the good, the less consumers are inclined to buy it. The point where the functions meet is the equilibrium, and it is clear how the competing forces of supply and demand will constantly be pushing the good to that price and quantity. If too much of the good is produced, a surplus is the result and the producers are forced to lower prices to liquidate their stocks of the good, (this lower price results in a disinclination on their part to produce that same good compared to how much they would have been prepared to produce, had the price remained higher). Similarly, if there is a shortage of the good, consumers are forced to pay higher prices to acquire it, and this higher price creates the impetus for producers to make more of it than they otherwise would have, had the price remained the same. Thus, prices and quantities of goods tend to oscillate around equilibrium, and the further in either direction that they move away from equilibrium, the stronger the forces pulling them back towards it become.

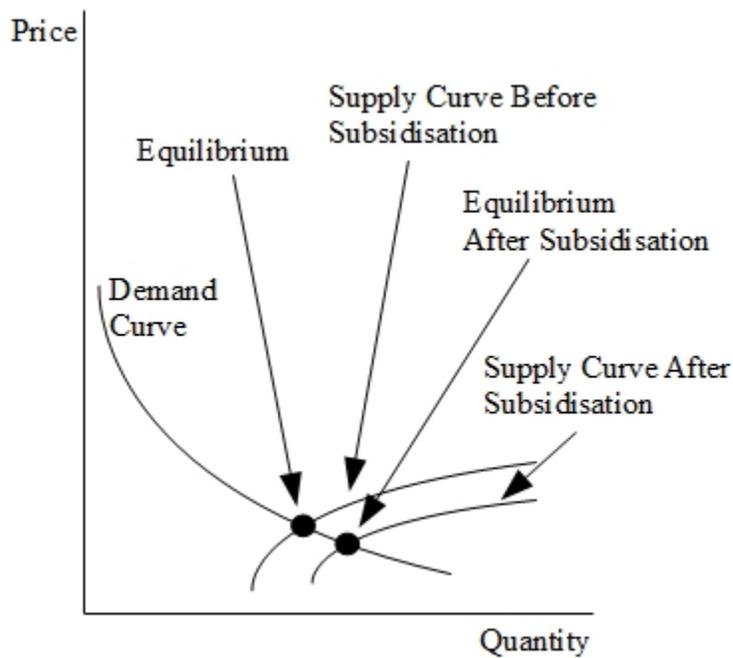
The benefits of this self regulation should not be underestimated, and we shall return to them later in section 3.4.

Figure 2



When a good is subsidised, like when a fair trade policy is adopted by consumers of a good, this provides producers of that good an incentive to make more of it. Thus, as we can see on figure 3, the supply curve moves to the right. The Demand curve however remains unchanged. This demonstrates why subsidisation results in more coffee being produced. Producers will produce more of the same good at the same price.

Figure 3

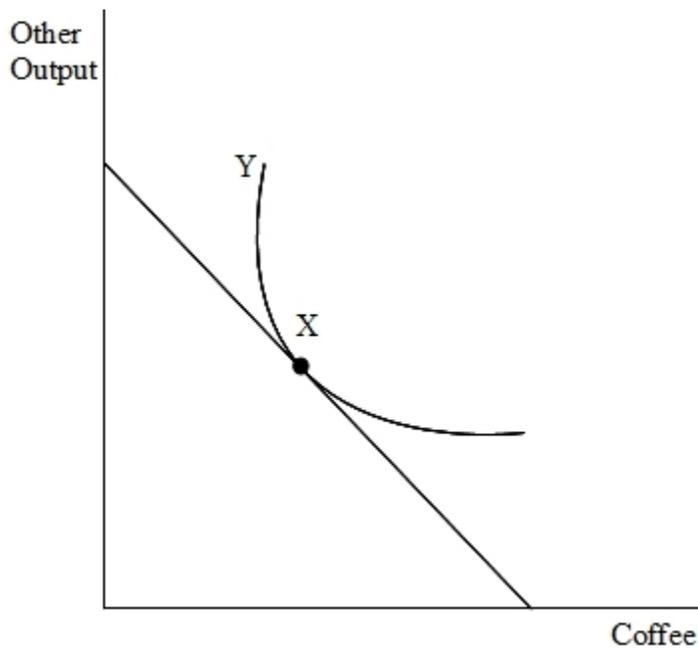


Because more coffee is produced, there must be a decrease in the alternative goods that were being made instead of it, as was diagrammed in figure 1. However, there is a reason why production settles on a certain point, rather than on any other.

Consumers are assumed both to prefer a particular blend of goods and more of a good to less of it. These preferences can be represented by an indifference curve. This can be put in terms of an individual to help appreciate the point. Assuming that a consumer is getting the perfect possible balance between a combination of goods, were she to get less of one of those, she would need proportionately more of the other good to offset this shift to remain equally happy. Thus, assuming that she indeed received proportionally more of the second good, she would remain indifferent to either of those two choices (her welfare would remain the same). We can illustrate this indifference by returning to graphing coffee and other outputs as we did in figure 1. On the diagram below, the curve Y represents this indifference. Notice however that every point on the

curve, except for point X, is above the theoretical line that represents the maximum output of the economy. Thus the production of an economy is assumed to be the point where the indifference curve that represents the aggregate preferences of the members within that economy is tangent to the line that represents the possible output of that economy.

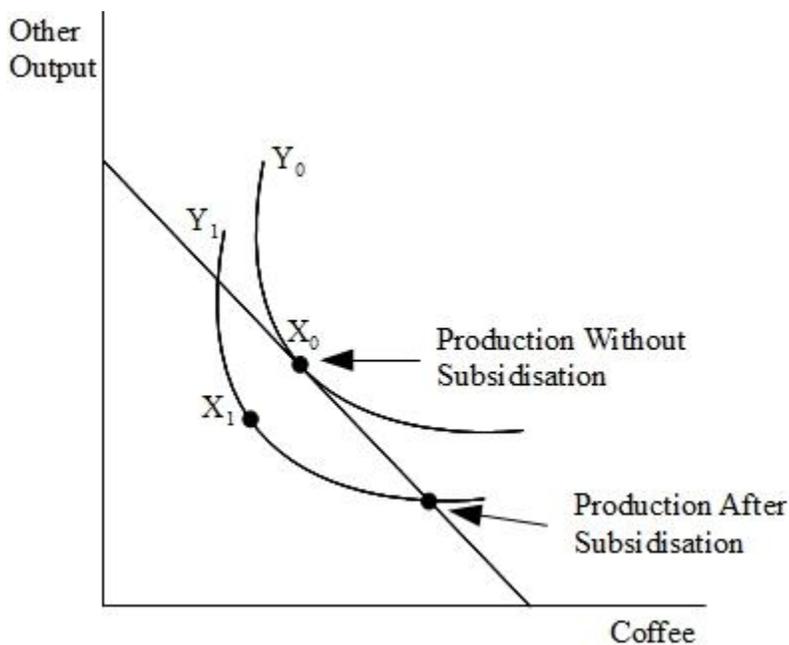
Figure 4



Another way to think of this is the following. Rational agents make choices and buy goods and services in such a way as to maximise their own utility. Suppose the points along the indifference curve Y represent equal utility for an agent (rather than for all the agents within an economy), but only one can be actually achieved. The rational agent will buy coffee and other goods in such a way as to achieve this balance. While considering the aggregate preferences of an entire economy is clearly more difficult, and there are certainly some theoretical hurdles to overcome, in principle we can see how the preferences of a group can be represented in the same way.

However, subsidising one of the goods alters the balance of those goods that can be acquired. It has the effect (assuming other factors remain equal), as we have seen in figure 3, of both increasing the quantity produced as well as reducing the price of that good, in our case coffee, and therefore necessarily reducing the production and increasing the price of every other good within an economy, and given that the economy was already assumed to be at maximum capacity, it will be impossible to produce more of those goods to offset this shift. Thus it is now impossible for consumers to acquire the optimal balance of those goods: they are forced to acquire an alternative of more coffee and proportionally less other goods. We see below that the production point after subsidisation is thus equivalent to point  $X_1$  on indifference curve  $Y_1$ , even though  $X_1$  is below the diagonal line that represents the maximum output of the economy. I.E., by subsidising coffee, the result is equivalent to lowering the total output of the economy, in terms of the utility that it generates, for the people that participate within it.

Figure 5



## 2.2 Specific Theoretical Costs of Fair Trade

In “The Myth of Fair Prices: A Graphical Analysis”<sup>50</sup> Yanchus and Vanssay break the costs of fair trade into three components for the rest of the world and two internal components for the target of the aid. The first cost to the rest of the world is simply the increase from the market price to the fair trade cost that the consumers in the developed world pay.<sup>51</sup> However, in our case we are ignoring this theoretical cost, because we will be comparing fair trade not to free trade directly, but to free trade plus a donation, to an acceptable charity, of the difference in price, that the consumer in question would make, between free and fair trade goods. Thus, while this is a cost, it is an equal cost to the alternative that we are considering and we should rightfully not count it as such in this case. The second cost to the rest of the world is another cost that is borne by the developed world. This is the cost to consumers as a whole in the developed world who receive less other goods than they would otherwise because of the incentive that fair trade offers farmers to make coffee, cocoa or any other fair trade good.<sup>52</sup>

This second cost can be explained as follows. Assuming that consumers in the developed world are rational, they normally buy the combination of goods that maximises their utility from the developed world (this is because, by being rational, they buy the combination of goods that maximises their utility in all cases). Thus, assuming that producers in the developing world are rational as well, they provide as close to this optimal combination as possible, because this maximises the return on those goods that they are able to charge. When consumers in the developed world, therefore, buy fair trade goods, one of the costs to the developed world is the loss of utility that arises when the developing world shifts production away from other non

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<sup>50</sup> Dennis Yanchus and Xavier de Vanssay, “The Myth of Fair Prices: A Graphical Analysis,” *The Journal of Economic Education* 34.3 (2003): 235-40.

<sup>51</sup> *Ibid*, 237.

<sup>52</sup> *Ibid*, 238.

targeted goods, for those other goods instead. Recall the previous section that demonstrates why this shift occurs. Producers of fair trade goods are artificially having those goods made more profitable for them, which causes them to make more of them and less of the now less profitable goods that they would have been making instead. Consumers of those other goods are thus unable to buy them and are consequently less well off than they would be otherwise.

While theoretically a cost, this second cost has to be admitted to be a rather insignificant one, especially as the goal of fair trade is to help far worse off people than the other consumers in the developing world who are theoretically harmed by such a policy, and given the consequentialist normative approach to ethics that I employ, I have to be wary of employing such an argument. Thus, I am only able to use this cost in an argument against fair trade, because adopting a policy of fair trade is, in this case, at the expense of an alternative policy that helps the developing world as much or more than fair trade does already, while not harming the developed world's consumers in this way.

The third cost is to other producers of the fair trade good who are not targeted (or subsidised) by the fair trade itself, and this cost is especially acute in coffee, because coffee is an inelastic good.<sup>53</sup> As we have seen above, when an industry is subsidised, this tends to increase the supply of the good above where it would be at its natural equilibrium point. Because farmers who are the beneficiaries of fair trade make more money than they otherwise would, they produce extra coffee or whatever other good is being subsidised. This creates a surplus, and lowers the price for coffee in general. Further, according to Yanchus and Vanssay, coffee is the sort of good that people tend not to want especially higher amounts of once they have enough of

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<sup>53</sup> Ibid, 238.

it: it is inelastic.<sup>54</sup> This means that as the farmers who benefit from fair trade produce more goods because of the subsidisation by consumers in the developed world, farmers everywhere else are especially harmed as they are forced to reduce their production as the price of coffee dramatically falls as a result of the extra production caused by fair trade. These nontargeted farmers are clearly harmed by fair trade policy. Further, these farmers are likely not significantly better off than the beneficiaries of the fair trade, given where most of the coffee in the world is made, as well as who makes it.

Citing Ruffin and Jones,<sup>55</sup> Yanchus and Vanssay's first internal cost of fair trade subsidisation is essentially the mirror of the second external effect. As coffee is subsidised, the producers of other goods within the economy that is targeted are put at a disadvantage because they have a harder time competing for any common resources. Thus, if a banana plantation is nearby a fair trade coffee plantation, and there is a limited amount of water, fertiliser, and electricity that both plantations need, then the coffee producer will be able to outbid the banana grower more easily for these resources, if he is being subsidised.<sup>56</sup> Further, nontargeted growers of coffee in other countries are disadvantaged for the same reason: the price of coffee is reduced, and they then have a harder time competing with the banana growers in that country. Finally, the last cost is hardest to quantify, but Yanchus and Vanssay claim it could be the most damaging. "Because fair prices distort information about a country's long-term competitive advantage, fair pricing may lead a developing economy down a dangerous path of dependence on the premiums

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<sup>54</sup> Elasticity of demand is usually defined as  $\epsilon = -(p/q)(\Delta q/\Delta p)$  where  $p$  is the price and  $q$  is the quantity produced (assuming that incomes and production of other goods remains constant), and a good is considered elastic if  $\epsilon$  is greater than one and inelastic if  $\epsilon$  is less than one. Thus because the demand for coffee is inelastic, as the price of coffee decreases, the total amount of money spent on coffee decreases as well, even though more coffee is sold.

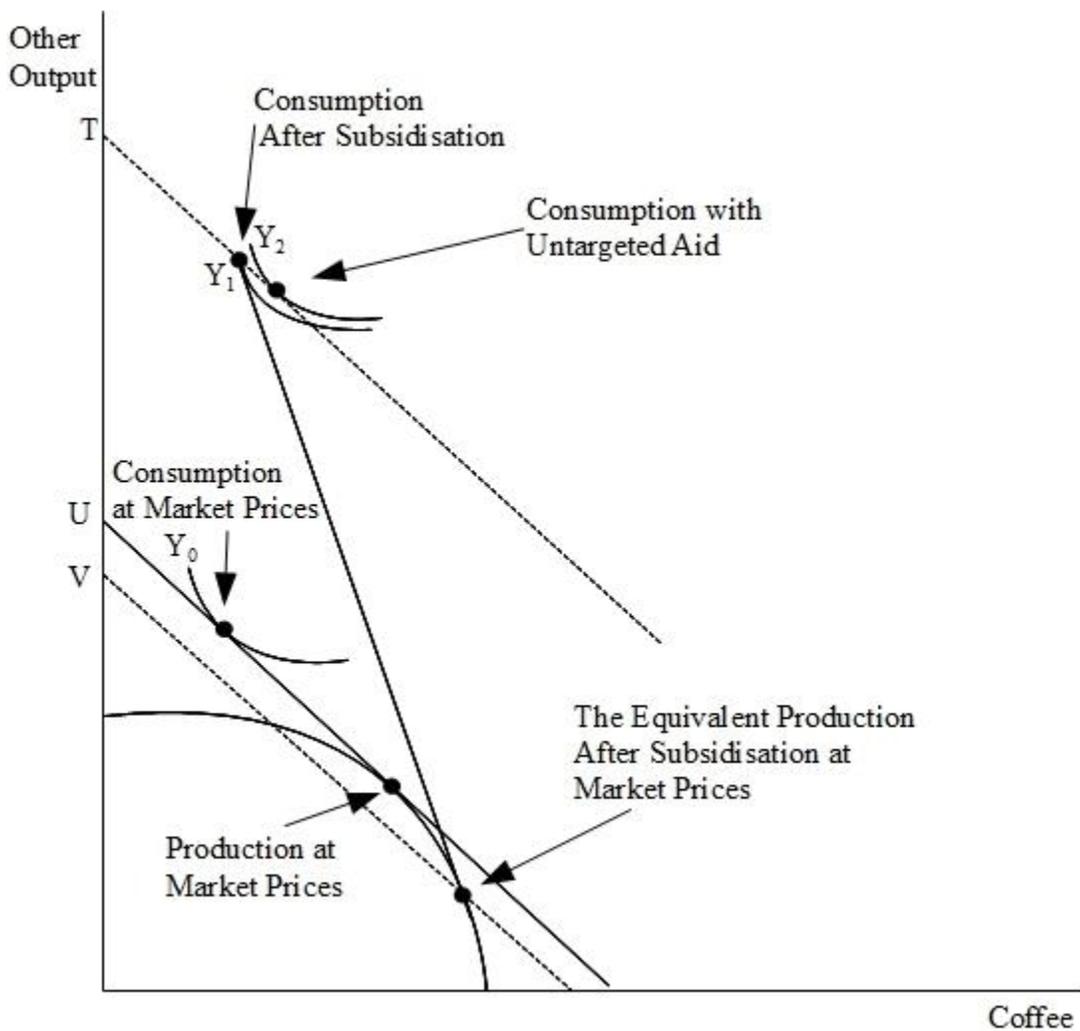
<sup>55</sup> Roy Ruffin and Ronald. Jones, "Protection and Real Wages: The Neoclassical Ambiguity," *Journal of Economic Theory* 14.2 (1977): 337-48.

<sup>56</sup> Yanchus and Xavier de Vanssay, "The Myth of Fair Prices: A Graphical Analysis," 238.

from fair prices. This internal distortion as well as the internal distortions in nontargeted countries may yet induce the highest costs from fair pricing.”<sup>57</sup>

The following diagram represents some of these costs. I have replicated it from how it appears originally in their essay, except that I have changed the labels of some of points. We can see that the first cost to the developed world is the movement from U to T. The second is the movement from U to V, and thus the total cost is V to T.

Figure 6



<sup>57</sup> Ibid, 238.

### 2.3 An Alternative to Fair Trade

Let's begin by considering two alternatives. First, one simply buys a fair trade good (such as a chocolate bar or a cup of coffee) and benefits people in a developing economy by however much the fair trade's aid component actually helps them, plus however much benefit they receive from selling their goods for the actual market price of those goods, or secondly by buying an equivalent free trade good and donating the difference to whatever charity one likes. I will argue that it is this second alternative that we should favour. I shall argue for this position in the following sections by presenting practical problems that are specific to fair trade that are not concerns for the alternative approach of buying free trade goods and then donating the difference in price to appropriate charities. First, however, I will make clear the theoretical gains of such an approach that are argued for by Yanchus and Vanssay, assuming that the aid is untargeted as I have defined it.

Recalling figure 6 in the previous section, the loss represented by the move from V to T, which is the cost to consumers in the developed world having the price of the commodities distorted by fair trade, is eliminated, and thus the same amount of good is accomplished for a lower cost. Further, by not distorting the price of coffee, the developed world is benefited by more than fair trade, which is represented by the move from the point on indifference curve  $Y_1$ , which represents consumption after subsidisation, to the point in the middle of the indifference curve  $Y_2$ , which represents consumption before the subsidising effect of fair trade.<sup>58</sup> For these reasons, assuming that there are no additional costs by running a charity rather than the additional costs incurred by guaranteeing that the aid component of a fair trade transaction is being properly spent, clearly fair trade is, theoretically at least, unreasonably inefficient. A

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<sup>58</sup> Ibid, 238-9.

straight donation, to a charity that uses the money in an equally targeted fashion as the aid component of fair trade does, of the equivalent of the aid component of a fair trade good would produce better results for both the consumers and the general population of that good's producers. Assuming that there is a form of further targeted aid beyond that of the aid component of a fair trade transaction, strengthens this point even more.

The problem that fair trade has is essentially one of targeting. We have good reason to believe that the aid component of any fair trade transaction is more poorly targeted than it could be. First of all, while there are many disputes about the effectiveness of different sorts of aid, it is quite plausible that some form of planned aid must be better targeted than giving money directly to a small (fairly arbitrary) subset of a population. Thus, while one might think that Oxfam, for example, is a wasteful or otherwise ineffective charity, it is quite likely that some form of aid that directly targets certain social ills, like a lack of clean drinking water, and devotes an equal amount of money to those ills, rather than directly paying a minority of people in the region a premium for their goods, will better aid that region than a straight donation to arbitrary members of the region's population.

Further, even if we do away with the assumption that there is theoretically an approach to targeting aid that is more effective than simply directly transferring funds to undeveloped regions of the world, there are good reasons to favour an alternative means of targeting the aid component of a fair trade transaction beyond the theoretical ones discussed above. These reasons are practical problems that are costs that fair trade goods have that either a direct donation (untargeted aid) or a donation to a charity that focuses on either alleviating certain ills, or building certain public goods does not. They are the topics of the following sections of this chapter.

Finally, before continuing, it is worth admitting that fair trade makes up a very small part of the market. Martin Wolf writes in 2004 that it is less than 1% of the market for cocoa, coffee, and tea, and it is virtually nonexistent in other cases such as palm and coconut oil.<sup>59</sup> However fair trade is definitely becoming more prevalent, and assuming that it indeed does become common, the problems outlined in the following sections give us clear reason to prefer alternatives to it. Further, using the fact that fair trade is such a small part of the market to defend it from these criticisms is rather disingenuous on the part of its proponents: it is dubious to suggest that fair trade should be supported, but only to the extent that it really doesn't catch on. Clearly, we should assume that indeed proponents of fair trade are recommending its adoption on a large scale, especially since so long as it remains small, it is not truly a solution to world poverty.

## 2.4 Economies of Scale

The first problem is the cost of a lack of economies of scale. When comparing large free trade operations *versus* smaller fair trade operations, one of the most striking differences is the efficiencies that the former realise over the latter due to their substantial size. In this section, I will argue not that we should promote free trade goods because of this efficiency, (which will be covered in section 3.3, but because fair trade loses this efficiency when aid is funnelled through it as a mechanism, i.e. a portion of a donation made through fair trade is lost compared to making it through the alternative that I am recommending, because the economies of scale efficiencies that are present in free trade goods are lost in fair trade.

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<sup>59</sup>Martin Wolf, *Why Globalization Works* (New Haven: Yale UP, 2004), 206.

Suppose I am considering buying a cup of coffee made from beans that were supplied by Nestlé, or suppose I am considering buying a chocolate bar from a corner store made by Nestlé<sup>60</sup> as opposed to a fair trade equivalent. Two major forces are at work driving down the price of those goods: first fierce competition with other free trade companies.<sup>61</sup> Secondly, Nestlé utilises economies of scale considerably to decrease its costs compared to other smaller but otherwise similar companies.<sup>62</sup> The first benefit we are removing from the equation, because whatever price Nestlé pays for the cocoa or coffee beans is what we are assuming is the market price, and we are only comparing the aid component of fair trade goods, because we are assuming that the people who benefit from the aid component of a fair trade good are indeed the people who are producing it, and it is those people who Nestlé is paying for the coffee or cocoa in question. However, the second ‘economy of scale savings’ that Nestlé enjoys, part of which it passes on to its customers to make itself at least as competitive, if not more competitive, than its competitors, is lost in the fair trade transaction. For the sake of argument, let’s assume that the economies of scale savings that Nestlé benefits from, compared to its fair trade competitors, which it passes onto the consumer, is 20p per cup of coffee sold, and this directly comes off the price of the cup of coffee.<sup>63</sup> It is this that is being lost from the fair trade equation.

Let’s add some more hypothetical numbers to the example. Suppose the free trade cup of coffee costs £1, and a fair trade one costs £2. The producers of the coffee beans receive 1 pound

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<sup>60</sup> Nestle here is taken to be equivalent to any multinational corporation that heavily utilizes free trade goods.

<sup>61</sup> It is of course this competition that forces Nestle to exert all of its bargaining power to demand the lowest possible prices from its suppliers, which is what opponents of free trade generally object to.

<sup>62</sup> The benefits of being a large company are many; they include, for example, better access to capital, securable by issuing bonds and shares on stock markets for instance, by shipping goods in larger more cost effective quantities, by streamlining management (employing less managers per tonne of coffee sold etc.), having the ability to operating on tighter profit margins while continuing to make the same profit, and many others. Thus, I take it for granted that this is an advantage that is realised by larger free trade companies over their smaller fair trade competitors.

<sup>63</sup> I am assuming that we are buying the cup of coffee from Nestle and its fair trade equivalent directly, because adding a retail store into the example merely complicates it unnecessarily.

less the costs that Nestlé incurs on the coffee above the cost of the coffee itself, ( $C$ ) as well as the profits that it makes ( $P$ ), and this is what we are assuming is the market price of the coffee beans in both cases, i.e. the market price that the producers receive is  $\text{£}1 - (C + P)$ , and we shall assume that this is 5p. The additional premium pound that the fair trade cup of coffee costs to buy is the aid component of the fair trade good. If we buy a free trade cup of coffee for 1 pound and donate the difference in cost between it and an equivalent fair trade good to the charity of our choice, who we shall assume gives the money to the people growing the coffee beans (and we shall continue to assume that they do it no more or less efficiently than had it been given to them through the fair trade targeting mechanism), then they receive  $\text{£}1.05$  (5p from Nestlé and  $\text{£}1$  from the charity) per cup of coffee.

However, suppose that we buy instead a fair trade cup of coffee for 2 pounds and do nothing more. The fair trade company does not operate nearly as efficiently as Nestlé, because of the economy of scale factors considered above. Thus the producers of the coffee beans receive less than  $\text{£}1.05$ . This is because the costs plus profit of the fair trade company are higher than Nestlé's. The beneficiaries of the aid component of the fair trade transaction receive  $\text{£}2$  minus the costs plus profits of the fair trade company, which is 95p plus the 20p that Nestlé passes onto its customers, which it receives from the benefit of the economies of scale advantage that it receives. Thus, the producers receive  $\text{£}2 - (C + P + 20\text{p})$  which equals 85p.

This results in clearly less targeted aid, with more of the money that is supposed to help people in the developing part of the world being wasted on non aid related costs, than if we were to buy free trade goods and donate the difference to acceptable charities that aim to support the same people that fair trade goods aim to. When we buy free trade goods and donate the difference in price between them and fair trade goods to charities, we are able to increase the

effectiveness of our donations by the savings that free trade companies enjoy due to their more efficient sizes.

## 2.5 Bumper Crops

A well documented hurdle that undeveloped and developing countries face is the damage that can be created by bumper crops. Developing and undeveloped countries tend to have large portions of their industry focusing on few cash crops, and when these crops have strong growing seasons, their value is reduced significantly due to the large surplus that is often the result. This is especially a worry for producers of coffee and other goods where there is a lag between the changes of prices and the corrections to the quantities produced that are a result of these changes.

Coffee plants take several years to grow to the point where they can be harvested. So if the price of coffee increases, the farmers who plant additional crops to take advantage of the increase will not be able to reap the rewards until years later, and if at which point the prices have since dropped, the rewards can cruelly turn into paucities.<sup>64</sup> Unfortunately this is a possibility especially if the reason for the increase in price was not due to the long term prospects of the industry but because of an anomaly within the market, like a heavy frost and drought both occurring in a major coffee producing region during a short time span, as happened in Brazil during the mid 1990s.<sup>65</sup> Just as farmers experience a lag to increase production in response to price increases, they can find themselves lagging to shift away from a crop even after the price has shifted down unfavourably. “Supply is stubbornly slow to adjust downward during periods of overcapacity. Because fixed costs (i.e., the costs of growing and maintaining trees) are a high share of the total costs of coffee production, it is economically rational for farmers to continue to

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<sup>64</sup> Brink Lindsey, “Grounds for Complaint?,” *The Cato Institute*, accessed August 29, 2010. [http://www.cato.org/pub\\_display.php?pub\\_id=6807](http://www.cato.org/pub_display.php?pub_id=6807), 3

<sup>65</sup> *Ibid.*

harvest coffee beans as long as prices cover variable costs, even if prices are well below average total costs.”<sup>66</sup> In the next chapter, section 3.4 we will examine how globalisation, specifically larger more sophisticated growers and access to futures markets, helps mitigate the damage created by bumper crops.

The problem of bumper crops is often cited by fair trade organisations as one of the reasons why fair trade is beneficial.<sup>67</sup> However, ironically, fair trade itself exacerbates this problem. Fair trade increases the incentive that growers have for producing these cash crops and hence it increases the relative size of these crops in their respective countries’ economies. Further, as we shall discuss in more depth in the following section, fair trade specifically targets small non-industrialised producers, and it is of course these producers who are the most likely to be the least sensitive to price volatility, because they have the least information about coffee production in far off regions of the world. Clearly, therefore, aid that does not have the effect of increasing production in a cash crop that suffers chronically from price volatility will be better targeted than the aid component of a fair trade transaction, assuming that all other factors are equal.

## 2.6 Sustainability

We will consider one final practical problem with fair trade compared to free trade. A substantial emphasis is put upon ‘sustainable’ production by fair trade proponents and organisations, for example by the Fair Trade Labelling Organizations International (FLO)<sup>68</sup> and

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<sup>66</sup> Ibid, 3-4.

<sup>67</sup> “Is Fairtrade a subsidy that encourages farmers to grow more coffee and therefore contribute to global oversupply and low prices?” *FLO*, accessed August 29, 2010, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2008/F/1\\_Fairtrade\\_and\\_oversupply.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2008/F/1_Fairtrade_and_oversupply.pdf), 3.

<sup>68</sup> “Aims of Fair Trade Standards,” *FLO*, accessed August 29, 2010, [http://www.fairtrade.net/aims\\_of\\_fairtrade\\_standards.html](http://www.fairtrade.net/aims_of_fairtrade_standards.html).

the World Fair Trade Organization (WFTO).<sup>69</sup> While in principle nobody disputes that ‘sustainable’ production is a good thing, the implementation of such policy can have devastating consequences, which can slow the growth of developing countries’ economies. Fair trade promotes small operations with little use of modern industrialised (especially within agriculture) technologies such as using synthetic fertiliser and energy intense techniques, because of its focus on sustainability, rather than larger industrialised operations which it views as less sustainable.<sup>70</sup> Further, it promotes small operations in general and their continued long term existence, in a recent impact study commissioned by Max Havelaar France, a member of the FLO, for example, this is explicitly listed as an achievement of fair trade.<sup>71</sup>

An example of this is the FLO’s policy to continue to bar large scale coffee plantations from acquiring fair trade accreditation. And by large scale, it means anything but the smallest of operations, which it defines as not requiring hired workers or anything other than manual labour,<sup>72</sup> i.e. it does not allow its members to industrialise, and it directly subsidises the inefficient competition of the industrialised producers that already exist or are considering entering the market. This clearly has the effect of creating a disincentive for coffee producers to industrialise in the developing world. The justification for this policy is that “The global Fairtrade coffee market is still too small to support both small farmers and plantations: currently

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<sup>69</sup> “10 Standards of Fair Trade” *WFTO*, accessed August 29, 2010, [http://www.wfto.com/index.php?option=com\\_content&task=view&id=2&Itemid=14](http://www.wfto.com/index.php?option=com_content&task=view&id=2&Itemid=14).

<sup>70</sup> “Climate Change and Fair Trade” *FLO*, accessed August 29, 2010, [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/2009-12\\_Climate\\_Change\\_and\\_Fairtrade\\_Policy\\_Paper.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/2009-12_Climate_Change_and_Fairtrade_Policy_Paper.pdf).

<sup>71</sup> Karine Laroche and Barbara Guittard, “The Impact of Fair Trade Labelling on Small-Scale Producers,” *FLO*, accessed August 29, 2010, [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/ImpactReport\\_SPO\\_2009EN.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/ImpactReport_SPO_2009EN.pdf) 34

<sup>72</sup> “Fair Trade and Coffee Plantations” *FLO*, accessed August 29, 2010, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2008/F/Fairtrade\\_and\\_Coffee\\_Plantations.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2008/F/Fairtrade_and_Coffee_Plantations.pdf).

less than half the total production volume of Fairtrade certified farmers' groups is sold on Fairtrade terms because worldwide demand is too small to absorb it all."<sup>73</sup>

However, development occurs by taking advantage of superior technology and practices. It is simply impossible to have a developed economy that has large amounts of its labour force all producing small amounts of coffee for sale on international markets, especially when there are other regions in the world already industrialised or in the process of industrialising that directly compete in that market, e.g. Brazil and Vietnam.<sup>74</sup> Further, another way in which agricultural industry is made sustainable, ignored by the FLO, is the ability of that industry to shift production away from price volatile commodities, such as coffee, and be able to diversify its production. Much of the industrialised equipment that the FLO is denying these small coffee producers can be used in a host of other agricultural activities, and this could allow them more easily to shift their production away from the single price volatile commodity of coffee, and into a diversity of crops far better protected from the boom and bust cycles that plague particularly the coffee industry.

The wealth that we enjoy in developed countries is accomplished through having large amounts of our labour force freed from agricultural duty. This allows many of us to be productive in other industries (people who used to need to farm to sustain themselves are able to become pilots and plumbers etc., which is what makes those services possible) and the products and services that are produced because of this is what generates what we think of as the wealth that we enjoy and the undeveloped world lacks, hence industrialisation (especially of agriculture) is an essential component of globalisation. Subsidising only small coffee operations can slow

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<sup>73</sup> Ibid.

<sup>74</sup> Lindsey, "Grounds for Complaint," 4.

this process down, and while it benefits the farmers directly, it would benefit the developing countries on the whole far more, if fair trade did not subsidise an activity that directly hampers these regions' economic development into an industrialised economy.

We can understand this problem further if we consider the following example. Suppose I were to offer the following deal to a farmer in a developed region of the world: I would pay her an additional premium on all the grain she grows, but she would have to grow it entirely on a small scale and not use many modern farming techniques, including industrialised equipment. Further, she would only be allowed to hire a very few additional workers to help her, though this stipulation is not really necessary, as she would not be able to afford to pay them competitive wages anyways. Unless I paid her many thousands of pounds in premiums, she would obviously never accept this arrangement. This is because to farm successfully in the developed countries of the world requires competing with other farmers who produce many tonnes of grain at extremely little cost. Any farmer in the developed world who accepted the conditions that the FLO imposes on coffee farmers in developing countries would live an appalling life style by developed country standards.

However, the living standards of people in the undeveloped regions of the world are often extremely poor. This means that if I were to offer many people in undeveloped and developing countries this same deal, they would be far more likely to take it, because it might very well lead to an increase in their living conditions. However, it has the effect of flooding the market with far more of these subsidised goods than would normally be in it, and this drastically reduces the incentive for other farmers to improve their farming techniques with the use of industrial equipment and fertilisers, because the reward for such an investment is greatly diminished. Many others, perhaps some of the few who actually have the capital to buy the

necessary equipment, would never enter into the market in the first place, instead focusing on another activity that, were it not for the fair trade movement deflating the price of coffee, would otherwise be less profitable for them.

## **Conclusion**

Clearly, fair trade is inefficient. As we have seen, theoretically it is equivalent to subsidisation, and this makes it vulnerable to well understood inefficiencies documented by economists. Further, it has a host of practical problems: it loses the benefit realised by large companies due to economies of scale, it encourages specialisation rather than diversification, and, perhaps worst of all, it hampers globalisation and development because it creates disincentives to industrialise, which we shall shortly see is a crucial step in ending world poverty. If we want to help alleviate poverty, then we should find other ways to do so rather than relying on fair trade goods. Consumers in the developed world should, rather than seeking out fair trade goods, buy free trade goods and either begin to donate to suitable charities or increase the amount that they are already donating to these charities by more to reflect the savings that they achieve by buying free trade goods instead of fair trade goods.

## Chapter 3

### Introduction

In this chapter I will argue for why globalisation should be supported. I will argue first that it should be supported regardless of whether there is a possible alternative that is better than globalisation at achieving the goal of developing the poorest regions of the world, especially Africa, given crucially two empirical assumptions. This is what I call the Plan B and A+ argument that is the subject of the first section. Following that section I move to how globalisation helps the poor by explaining how both halves of globalisation, as I have defined it in section 1.3, help reduce poverty. This will be done by briefly considering the theoretical benefits of globalisation using standard economic theory and by citing limited empirical data to support the point. Essentially the goal of this will be to justify the two assumptions made in the Plan B and A+ argument.

The first section is the Plan A+ and B argument. The second section argues that growth is essential in poverty reduction and that it should be our focus, also section 3.2 further distinguishes the problem of poverty and inequality. The third section outlines the benefits of the first half of globalisation, the implementation of market economies and industrialisation internally within the developing world's economies. The fourth section discusses the benefits of the second half of globalisation: free trade.

Crucially, I want to make clear that I harbour no illusions about what globalisation entails. I don't wish to hide behind euphemisms in this debate: there is no doubt that, especially

in the early going, globalisation will manifest itself in the form of sweatshops that have poor (in many cases brutal) working conditions. So not only will we discuss how industrialisation in principle is good, we shall also discuss how sweatshops as the first stage of development are themselves good, even though they are only a stepping stone on the journey and by no means the goal in themselves. Further, when people oppose sweatshops they do so only by adopting extreme paternalism that can only be sustained by refusing to accept that the people who are working in those sweatshops are not behaving rationally. However, this side of the debate will have to wait until section 4.1 and 4.4.

### 3.1 Plan B and A+

It appears as if one of the, if not the, most important questions that has to be answered is whether or not development is possible without an intermediary stage of poor working conditions. Specifically, can we develop the poorest regions of the world without having to have people working in sweat shops? My answer to this question is probably not, and I will attempt to explain better my reasons for this position in the following chapter in section 4.4, where we consider a prevalent, but false, Marxist intuition that pervades much of the development debate. Further, as I will argue shortly, even if it can be done, we shouldn't attempt it, because globalisation is a force for good, and including it therefore in any plan to develop the world's poorest regions should be only seen as a good thing. Thus, I shall attempt to put this crucial question aside. I hope to do this with a simple proof by cases argument, which I call 'the plan B and the Plan A+ argument'. The argument itself can be summarised as follows:

1) **Globalisation is overall a force for good**, but it has some perceived negative elements; e.g., sweatshops with abhorrent working conditions, especially in the early stages of a poor region's development, will be prevalent and directly a result of globalisation. (Plan B)

2) There may be in principle an alternative way to develop poor regions of the world without relying on globalisation, and hence avoid the perceived negative consequences that result because of it, and this would be a better way to develop a region than simply relying on globalisation. (Plan A)

3) However, *so long as that alternative (plan A) is not being implemented, then plan B is preferable to doing nothing at all.*

4) Plan A is either happening or it is not. (Tautology)

5) Further, *given that **globalisation is overall a force for good**, and **plan A can be improved by the inclusion of globalisation within it**, then globalisation should be a part of it.*<sup>75</sup> (Plan A+)

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6) We should support globalisation.

The preceding argument is not without controversy. This controversy can be broken down into two categories of claims: first, questions of fact (bold), and secondly statements relying upon normative positions justified by certain normative theories (italics). Let's begin by simply noting the factual claims. First, '**globalisation is overall a force for good.**' Secondly, '**plan A can be improved by the inclusion of globalisation within it.**' Showing these two claims to be the case will be a primary concern of the following sections of this chapter.

How I attempt to justify my two empirical statements needs to be explained. We shall see that globalisation is actually the driving force of development, and that aid should properly be seen as in addition to it rather than the other way around (what might really be better thought of as B+ rather than A+ as I stated it in the argument above). However, the distinction between B+ and A+ as I envision them is quite fleeting. It is really a matter of priority, so in practical terms it is a distinction without a difference. Thus my position is that a significant portion of plan A is harmful. By prohibiting, or attempting to discourage, sweatshops we slow down globalisation

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<sup>75</sup> It must be admitted that many proponents of the plan A policy would deny that the workers who were expelled from their sweatshops would be harmed by such a policy, even if we were not also including the significantly more aid in the proposal as well, but we will look at why this claim is false in section 3.3 and 4.1.

and hinder development thereby hurting the people in the developing and undeveloped world. It may be possible to overcome this harm by conjoining with this policy against sweatshops so much aid as to create more good than allowing globalisation to take its normal course would create, and it is this that I call plan A.<sup>76</sup> However, this is inefficient (if even possible at all), so ideally we would support globalisation and include the aid that came with plan A, and this is effectively both plan A+ or B+, depending on how one looks at it.<sup>77</sup> Thus, as I see it we have three possible courses of action: first plan B, which is to allow globalisation to happen unhampered and without aid, which I shall argue would be a good thing (if not the best way to solve the problem of poverty), secondly, we could impede globalisation and attempt to develop the poor regions of the world through another means, which I have called plan A (this would clearly be at considerable cost), or thirdly, (what effectively could be called either plan A+ or B+) we could support globalisation, and use the resources that would be required to make plan A possible to supplement the development created by globalisation, which is the solution that I favour.

Thus I take it that what I must show are two things that will lead to the two empirical claims that my argument at the beginning of this section relies upon: first, globalisation leads to development, which entails that it is a force for good, and secondly that discouraging sweatshops

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<sup>76</sup> It is difficult to give examples of what plan A could be described as, because it is uncontroversial that it will not occur. But I take it theoretically to comprise several options that chiefly take the form of implementing policy that prevents sweatshops and simultaneously building considerable infrastructure to facilitate development (this would have to be provided entirely by the developed world). Further, in the meantime considerably more aid would be required to increase the welfare of the people living in the undeveloped and developing world as much as possible. I take it that nobody expects this to happen, but yet it appears commonly that people wish to proceed as if it will, by banning sweatshops, even if the second (and far more onerous half) of the solution cannot be implemented. I must add, of course, that proponents of Plan A would clearly also argue that banning sweatshops would be in itself good, but we shall see in section 4.1, this is misguided.

<sup>77</sup> As always, I remain neutral on the best form of aid, as it is such a controversial question. I will simply assume that theoretically some form of aid is beneficial.

and free trade in plan A is less beneficial than not doing so, so plan A would be improved by globalisation.

The normative claims are as follows: first from premise 3, '*so long as that alternative (plan A) is not being implemented, then plan B is preferable to doing nothing at all*' and secondly from premise 5, '*given that **globalisation is overall a force for good, and plan A can be improved by the inclusion of globalisation within it, then globalisation should be a part of it.***' These claims are justified with the two central normative claims discussed in section 1.1: first the weak consequentialist principle, *we should maximise the good, provided that it doesn't violate other ethical restrictions*, and secondly the limited principle of beneficence: *we should take action to help others that are greatly in need, if we have it within our reasonable power to do so, even if we have no significant relations with those people and owe no other obligations to them.*<sup>78</sup>

Premise 3 only requires the limited principle of beneficence, because if one is taking no action, while others are suffering, and one has the ability to take an action without (or with a reasonable) cost, then one should do so, assuming of course that one doesn't take an adequate alternative action (possibly with a higher cost) to help those people, and in the case of supporting globalisation the cost is extremely minimal: simply one has to refrain from actively resisting it, such as by boycotting free trade goods and supporting protectionist trade policies. Further, as the limited principle of beneficence is a consequence of the weak consequentialist principle, if we are prepared to accept either principle, then premise 3 is justified.

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<sup>78</sup> Further, I continue to assume that buying a good made in working conditions that are characteristic of sweatshops is not included among those ethical restrictions, provided that the workers suffering those conditions are made better off than they otherwise would be, and they are not being forced against their wills to participate. This assumption can be justified, at least in Kantian terms, by pointing out that refusing to buy a person's good, when it would benefit that person, because one doesn't like the working conditions under which that person made that good, at the cost of making that person even worse off, would not be treating that person as an end.

Further, there is an argument to be made that premise 5 is justified by the beneficence principle as well as by the weak consequentialist principle, because supposing that we are performing plan A, then supporting globalisation, by which I mean simply buying free trade goods in this case, is clearly within our reasonable power to do. However, many opponents of consequentialism, Kantians for example, may look upon such a principle as sneaking consequentialism in through the back door, and may be hesitant to accept it,<sup>79</sup> and of course if they are not prepared to accept that argument relying purely on the principle of beneficence, then it is unlikely that they would be prepared to accept the weak consequentialist principle as well. However, clearly, the weak consequentialist principle produces all the justification that we require and should one accept it, then premise 5 is guaranteed.

Thus, given the weak consequentialist position, the argument is valid. For the sake of interest it is worth noting that given the principle of beneficence only, and granting that it does not justify premise 5, the argument can still be saved to a large extent, but it has to be modified slightly. Premise 4 and 5 can be replaced by the following claim: ‘plan A is actually not possible, because people are not prepared to demand that such policy is implemented, because doing so requires a significant sacrifice on their part.’ Thus, even if one is prepared to act as morally as possible, and assuming even that this includes donating as much as possible to charity and reducing one’s own life to poverty in an effort to save the people starving to death in the undeveloped world, then the conclusion can still be saved, and one can still endorse globalisation, because now effectively no adequate action is being taken to abate the starvation and poverty in the world.

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<sup>79</sup> This leaves a puzzle as to how Kantians can justify a principle of beneficence without relying implicitly on some form of a weak consequentialist principle, but it is unfortunately not a question that can be further considered.

1) **Globalisation is overall a force for good**, but it has some negative elements; e.g., sweatshops with abhorrent working conditions, especially in the early stages of a poor region's development, will be prevalent and directly a result of globalisation. (Plan B)

2) There may be in principle an alternative way to develop poor regions of the world without relying on globalisation, and hence avoid the negative consequences that result because of it, and this would be a better way to develop a region than simply relying on globalisation. (Plan A)

3) However, *so long as that alternative (plan A) is not being implemented, then plan B is preferable to doing nothing at all.*

4) Plan A is not practically possible, because we know others are not going to make the necessary sacrifices to implement such a plan.

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5) We should support globalisation.

Perhaps, in this case there is also an additional possible Plan B+ that a Kantian should be advocating: we should promote globalisation as the best available option, only because others are not living up to their moral obligations, and we should supplement globalisation as much as possible through donating to appropriate charities.

Further, if we are prepared to accept that plan A is not actually possible, as consequentialists we also should support a B+ plan: i.e., support globalisation but also donate to charity (to whatever degree of demandingness one is prepared to accept). This argument effectively echoes Peter Singer's argument in "Famine, Affluence, and Morality" and *The Life You Can Save* with the empirical claim that globalisation is crucially the best means of development assumed as well. A move that Singer himself is at least not completely unsympathetic towards, as he argues strongly against tariffs and agricultural subsidies in *The Life You Can Save*.<sup>80</sup> However, in the interest of brevity, we shall leave plan B+ aside in this case

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<sup>80</sup> Peter Singer, *The Life You Can Save*, 113.

and simplify the conclusion to we should support globalisation, as I take it as noncontroversial that donating to appropriate charities is a good thing to do.

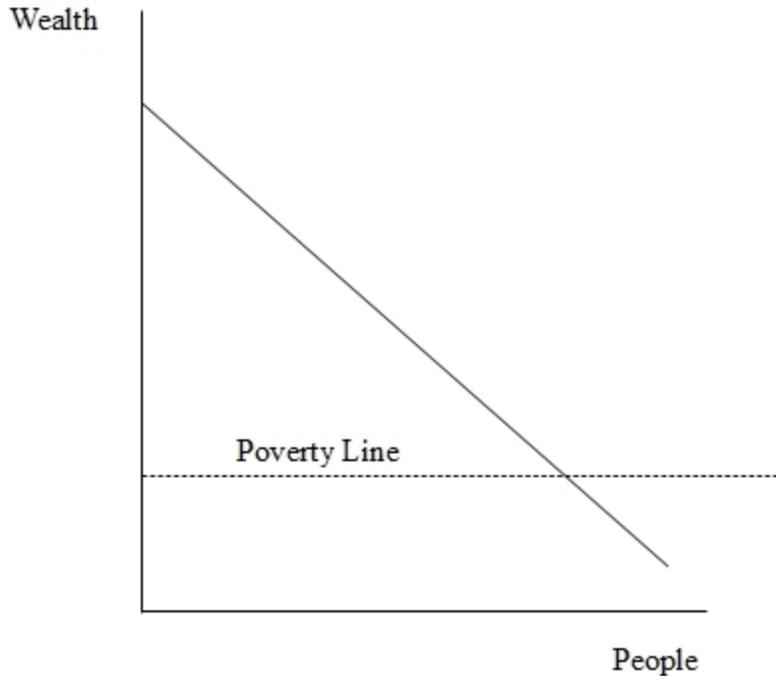
Thus let us now turn our attention towards the two crucial empirical claims from my above argument. Globalisation is a force for good and secondly an attempt to solve poverty without globalisation would do more good with its inclusion.

### **3.2 Growth and Inequality**

In section 1.3 we defined poverty and development, and crucially we did it in absolute terms, so that we could separate the problem of inequality from poverty. As we shall see in the next chapter, policies that are designed to tackle inequality and proscribe harsh working conditions often hurt everybody involved, especially the people that they are supposed to help, so the first most crucial thing that we have to realise is that by far the best way to raise the living standards of the poor is through economic growth. We have already noted that economies can grow and the relative share of the benefit of that growth can favour the rich instead of the poor, yet so long as the poor's welfare increases, then the objective of alleviating poverty is being accomplished, even if the objective of reducing inequality is not.

In simplistic terms poverty and inequality can be seen by graphing it as follows. On the X axis we have laid out everybody from richest to poorest, and on the Y axis we have the wealth of those people.

Figure 6

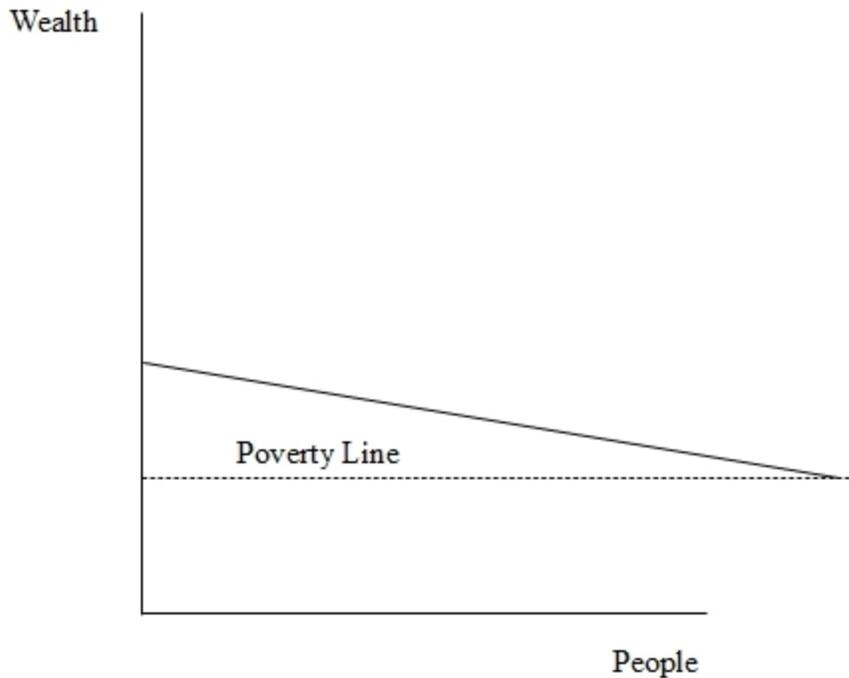


Philosophers such as Singer<sup>81</sup> and Unger<sup>82</sup> argue that we should take steps to adjust the situation so that it looks something more like figure 7. Clearly, they couch the issue as one of poverty, but their solution is one primarily of redistribution, and it could, therefore, as well be inequality. They might argue, in Unger's case especially, that there may be no limit to the extent that we should be obligated to strive to create equality through the more fortunate continuously donating their wealth to the less fortunate. However, the extent that we should strive for equality is essentially a question of demandingness, that we have already covered, and I leave it up to the reader to determine to what extent she feels obligated to help the poor through personally sacrificing her own wealth.

Figure 7

<sup>81</sup> Peter Singer, *The Life You can Save*.

<sup>82</sup> Peter Unger, *Living High and Letting Die: Our Illusion of Innocence*.



Unger's and Singer's position is intuitively aided because were we to distribute the population by continent (starting by the wealthiest and ending with the poorest) rather than by wealth, we would certainly be struck by how closely the two graphs would resemble each other. However, in terms of their position, this fact is actually irrelevant. The distribution of the poor, were it to change so that it was more evenly distributed across the world, would not change the conclusions of Singer's and Unger's arguments.

Yet it is intuitively important that inequality does correlate with region. Thus, ideally, we would have an account that makes this fact relevant. The approach that I favour clearly distinguishes the problem of equality and poverty, and while it admits that inequality is not desirable, I suggest that when tackling the problem of poverty the focus should be far more on

the percentage of the population above or below the theoretical line which I have labelled poverty, rather than the steepness of the distribution of wealth throughout the population.

There is a prominent debate in philosophy between prioritarrians and egalitarians. Clearly my position falls on the side of priority, and that it is certainly where my sympathies lie. However, as always I hope to remain as neutral as possible. Thus, my position of prioritarianism can be softened so many more egalitarian inclined readers would accept it. Clearly put, all we must accept is that when the deprivation of the poorest people is so desperate that they are starving to death, raising their living standards at the cost of creating more inequality (i.e., if the method that we use to raise their living standards coincidentally increases inequality) is plausibly a good thing. For example, this stipulation is consistent with Rawls' principle of maximin.<sup>83</sup>

Thus, the fact that certain continents have considerably less wealth per person in them is made crucial to solving the problem of poverty by my approach, and it does not lead us, when considering only poverty, to the conclusion that we need to redistribute wealth to solve the problem (something that is a lot more easily said than done, as it is hard to convince people living in a liberal democracy to adopt such a policy). Instead we should discover what is happening in the wealthy continents that allows the people living on them to be so wealthy, and then how we can get the poor continents to be more similar, in that crucial regard, to the wealthy ones.

Thus my position is one where the focus is on economic growth rather than wealth transfer. To the extent that we also donate our personal fortunes to the cause, so much the better, but the true solution to the problem has to be growth. Thus, clearly the objective is development:

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<sup>83</sup> For further debate of this issue, see Rawls, Chapter 2; Scheffler, *The Rejection of Consequentialism*, Chapter 2; Paul Weirich, "Utility Tempered with Equality," *Nous*, 17 (1983): 423-39, Derek Parfit, "Equality and Priority," *Ratio*, 10, (1997): 202-21, and Joshua Cohen, "Democratic Equality," *Ethics*, 99 (1989): 727-51.

to have the people living in the poorest regions of the world able to produce enough goods and services that they can create life styles that bring them similar amounts of welfare as the people living in the developed world enjoy, and this has to be accomplished by the adoption of the practices and technology that allows the developed countries to produce such large amounts of goods and services. But there are short term problems that many critics of globalisation point to that give them pause to recommend policy to encourage this growth, so we shall now attempt to address some of these concerns.

A common objection to globalisation is that it is usually the poor in developing economies who are the last to benefit from growth, and because of the confusion of seeing poverty as relative rather than absolute, it can even be viewed as a negative and not a positive. We shall see, further in the next chapter as well, why it is often necessary that unfortunately it is the poor who are the last to be benefited from economic growth, but this is not an argument against economic growth, because growth will eventually help the poor. Even if they are not able to take advantage of it as quickly as others, it does still diminish poverty in the long run. Further, there are indeed certain policies, that, if properly administered, could rectify this problem considerably, and especially control certain kinds of growth that actually can potentially hurt the poor in the short term so that that consequence does not occur, or at least compensate them for the damage that this paradoxical growth can inflict upon them. Therefore, growth should be supported as the primary means of alleviating poverty.

First let's note the rare cases when growth actually can hurt the poor. Secondly, I shall argue that as growth in the long run does become distributed through the entire economy, it does inevitably help the poor. Because of this, we should tolerate the rare short term negative side

effects of growth that cannot be mitigated by individual policies designed to enhance development.

There are two important theoretical cases where growth can harm the poor in a country. The first, a case presented by Bhagwati, is immiserizing growth, which, surprisingly, is a net loss for everybody in a country as a whole.<sup>84</sup> The second is the phenomena of the poor being out competed due to increases in technology that the rich are far more likely to take advantage of, which, though it increases the size of the pie, it also redistributes that pie so that the poor receive in absolute terms less of it than they had before the growth. The first phenomena occurs when a country produces so much of a good that it reduces the price of that good to the point where it receives less for that good in total revenue than before it increased its production. While theoretically this is a problem, it is mostly, if not entirely, confined to the textbook; further, the best solution to immiserizing growth is diversification,<sup>85</sup> and as we shall see, in the following section 3.3, one of the benefits of globalisation and free trade is that it encourages diversification.

A second concern that globalisation's critics like to point to is growth in one sector of an economy that results in a loss for another poorer segment of the same economy. A good example is the following theoretical case.<sup>86</sup> A new technology might be developed, or introduced as a result of globalisation, that allows certain farmers in a given economy, the ones who are already wealthy enough to invest in it, the ability to increase their yields considerably and therefore increase the size of the economy, but the poor farmers, who are not so fortunate to be able to afford to invest in this new technology, are obviously unable to produce more because of this

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<sup>84</sup> Jagdish Bhagwati, "Immiserizing Growth: A Geometrical Note," *The Review of Economic Studies*. 25.3 (1958): 201-5.

<sup>85</sup> Jagdish Bhagwati, *In Defence of Globalisation*. (Oxford: Oxford University Press, 2007), 55.

<sup>86</sup> This case is based on the fears that many had to the green revolution in India, which fortunately turned out to be unjustified as the green revolution had a profoundly positive effect on everybody in India including the poor. *Ibid*, 55-6.

technology's introduction. Industrialised agriculture is a potential perfect example. So as the yields of the wealthy farmers increase, necessarily the price of the crops that all of the farmers are producing drops per crop, and thus the rich farmers grow richer and the poor farmers grow poorer. John Ralston Saul makes this point, among others, in the following paragraph.

In well-organized markets there are strong rules against dumping. There is nothing new about this. It has been true for thousands of years. You can't have competition if some people can dump underpriced goods into markets in order to destroy the local structures and replace them with their own. Traditionally we think of dumping as the underpriced offloading of surplus goods. But in a consumer economy almost all goods can be seen as surplus. You could say that Globalization is a system of normalized dumping. The argument in favour is that only through dumping can the client buy the cheapest goods. This argument ignores the necessity of a stable market, which permits competition, which is in turn destroyed by such pricing. The most institutionalized and destructive form of modern dumping is industrialised agriculture. Why? Because it undermines the capacity of farmers in both the producing and the consuming societies to make enough profit to stay farming.<sup>87</sup>

Three things must be noted in response to Saul's argument. First of all, the claim that industrialised farming is unsustainable in both consuming and producing economies is preposterous. Food is the most important good in every society, and the demand for it will keep farmers in business ahead of every other industry. While some inefficient farmers may be put out of business by larger scale industrialised farms, this only occurs because these larger farms are more than replacing the output of the smaller farms. Secondly, it is absurd to block technology or some other force that increases productivity from being introduced into economies, developing or otherwise, on the grounds that it will hurt a segment of that population in the short term, when in the long run it is beneficial to all members of that economy, including the poor.

Such a position would create a catch 22 that can always be used to maintain the *status quo*. The poor will be benefited only to the extent that the short term harm to them will be

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<sup>87</sup> John Ralston Saul, *The Collapse of Globalism*, (Toronto: Penguin Canada, 2009), 127.

alleviated, and in absolute terms they will not be aided at all by such a policy. And of course, we will continue to be able to use the same argument to forbid introducing the new technology for ever. Thirdly, the claim that “Globalization is a system of normalized dumping” is equally preposterous. Globalisation may have the effect of destroying the way of life of many people who were employed providing certain services, just as inefficient farmers have their livelihoods diminished by industrialised agriculture, but this is only because they are unable to compete with the more efficient larger scale producers of those goods. Those producers are not dumping those goods when they provide them for less than local workers are able to produce them for, they are simply outcompeting them. And the workers who are in the short term harmed by the new supply of these goods will in the longer term adjust to begin to provide new goods and services, which are now only possible because the goods that they used to be providing are available for cheaper.

There is an inherent and unpalatable chicken and egg problem that is at the heart of this debate, especially as it pertains to agriculture. Development requires a move away from subsistence farming and into one where a large portion of the population is employed in other sectors and all the food is produced by a very small percentage of the population. However, as food production moves in that direction, the poor, who are so often farmers, have the small amount of food that they were producing themselves and selling on the open market decrease in value. Once they move to other sectors in the economy, they will be able to buy the more efficiently produced food from the industrialised farms with the goods, suppose a light manufacturing industry is the industry which rises, that they then will be producing, and they will be better off, but in the short term they could easily be harmed by the introduction of industrialised agriculture. However, if industrialised agriculture is the egg and a new manufacturing industry for the poor farmers is the chicken, then clearly the egg must come first.

The poor farmers obviously cannot move into the new manufacturing industry before the more efficient and large scale and industrialised farms are producing the food for them to eat, and so if we are going to have the growth that the undeveloped and developing world needs, we will have to allow industrialised farming to take hold.

Thus, while there are policies that can be put into place to mitigate as much as possible, if not eliminate completely, the harm that is done in the short term to the poor, it is essential that industrialised agriculture flourishes in developing and undeveloped countries, one way or another. So long as large segments of a country's population is subsistence farming, substantial economic development cannot occur, and that in itself is far more harmful in the long term than any short term growing pains that growth causes. Therefore, the theoretical possibility that growth may harm the poor in the short term cannot be used to make an argument against globalisation; rather, only an argument with a weaker conclusion is possible: some sort of mitigating policy, if possible, should be introduced to benefit the poor who are harmed by the growth of the economy, especially since it is largely the poor's welfare that we are concerned with increasing.<sup>88</sup>

Aside from the two kinds of problems that growth can have mentioned above, growth is either good for the poor, or, if it does not affect them, such as if they are in a rural part of a country while the growth is occurring in the city, neutral towards them. However, growth usually

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<sup>88</sup> There is of course considerable debate as to the approaches that should be adopted to rectify these problems. My inclination is towards policies that are often associated with the Washington Consensus, but clearly there is a potential continuum between fairly left wing yet market friendly policies to far more rightwing neoliberal policies all of which in principle could be acceptable, if not equally effective. For example of the former, see for example, for the former, Joseph Stiglitz, *Making Globalization Work*, (New York: Penguin, 2006), and for the latter Jagdish Bhagwati, *In Defence of Globalization*, especially chapters 16-18. Also see Hernando De Soto, *The Mystery of Capital*, (London: Black Swan, 2002), and Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*, (Oxford: Oxford University Press, 2007), for further approaches to implementing policy both to protect the poor from some of the harms of globalisation as well as other policies to possibly help enhance it.

occurs in spurts and benefits at first certain small sections of an economy more so than other larger parts. The people fortunate enough to take advantage of new technology or practices do very well initially, and then as the practice or technology that makes them so successful slowly becomes more widespread, the wealth that is created by it increases further and becomes more evenly distributed throughout the population. Thus, growth needs to be supported, but we have to always remain patient and allow it to spread, as often it is the poor who have to wait the longest to be benefited,<sup>89</sup> but benefited they will be, and the sooner the growth occurs, the sooner that will happen.

### **3.3 Economies of Scale, Industrialisation, and Free Market Economies**

I have defined globalisation as having two halves: industrialised free market economies and free trade. In this section, we will look at how the first half of that conjunction benefits the poor and aids development.

In the previous chapter we discussed how channelling aid through fair trade companies is inefficient because of economies of scale. I.e., fair trade companies are small and therefore, due to a lack of economies of scale, have higher costs. This results in a portion of the aid component of a fair trade transaction being wasted. This is a problem that my alternative approach sidestepped, which I argued was a reason in its favour.

However, we didn't reflect on why large companies (Nestlé was the example that we used to stand for them as a class) became so big in the first place. A free market forces companies to compete to produce the services and the products that they provide and make to their customers as cheaply as possible. The best way for companies to do this is to be as

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<sup>89</sup> See section 4.4 for further discussion on why growth often affects the poor last.

productive as possible obviously, and this is achieved by adopting the practices and employing the technologies that results in the lowest costs. Companies that are not able to compete by either providing cheaper or better goods than their competition quickly go out of business, and the companies that survive quickly capture the market share that the companies that fail leave behind. The result is the same amount of goods are produced but with a smaller share of the total economy producing those goods. The portion of the economy that was made up of the companies that were not able to compete effectively are forced to move into new sectors and find another good or service to produce or provide instead. As this good or service enters the economy, the effect is growth and more wealth in total.<sup>90</sup>

Economies of scale are an example of this force at work. As we noted in the previous chapter, larger companies have better access to capital, which reduces their costs when they borrow money. They are able to get better rates when shipping their goods and buying their supplies because it is cheaper to transport in bulk. They also have lower management costs as a share of their goods' prices. The division of labour is a second example of this sort of force at work. As people specialise in certain trades and tasks they become more productive and provided that they are able to trade with each other, they have an incentive to begin specialising as they are able to trade the surplus goods and services for the ones that they necessarily had to abandon making and providing for themselves.

Further, there are other efficiencies that also provide a reason to endorse free market economics as a integral part of development. The market is extremely effective at naturally regulating the production of an economy to fit the demands of that economy's population, and

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<sup>90</sup> Recall section 1.4, where we considered how such economic analysis is especially effectively combined with consequentialist normative theory and this was a benefit of adopting a consequentialist position for this topic.

the result is close to the optimum production and consumption given the resources of a given economy.<sup>91</sup> There is certainly a question as to how unfettered markets should ideally be. For example, while it is generally accepted that markets are a crucial component of an efficient economy, many, if not most, economists accept that there is a need for moderate regulation to correct for a host of practical problems that can occur in the real world, such as monopolies forming. Further, many economists argue that subsidies and taxes to encourage and discourage respectively positive and negative externalities are in certain cases efficacious as well.<sup>92</sup>

However the crucial point is that markets are the foundation of developed economies because of overall the efficiencies that they bring (These benefits are what are often linked to the ubiquitous metaphor of Adam Smith's invisible hand), and they are therefore an important part of globalisation and should be supported for that reason.

However, there are further potential benefits of market or exchange economies that go beyond the efficiencies described above. This is the potential for the free market itself to be 'an engine of growth' within a developing economy. In "From Subsistence to Exchange,"<sup>93</sup> Bauer presents this position. Citing the historians Hoh-cheung and Lorna Mui,<sup>94</sup> Jacob Price,<sup>95</sup> and Richard Gassby,<sup>96</sup> Bauer argues that much of the wealth of Britain and the United States of

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<sup>91</sup> Recall section 2.1, where we considered how this self regulation occurs.

<sup>92</sup> For example see, Bruce Greenwald and Joseph Stiglitz, "Externalities in Economies with Imperfect Information and Incomplete Markets," *The Quarterly Journal of Economics* 101.2 (1986): 229-264. Paul A. Samuelson, "The Pure Theory of Public Expenditure," *The Review of Economics and Statistics* 36.4 (1954): 387-9. Kenneth Arrow, "The Organization of Economic Activity: Issues pertinent to the choice of market versus Non-market Allocation" *University of California Santa Barbara Economics*, 1969, accessed August 29, 2010, <http://www.econ.ucsb.edu/~tedb/Courses/UCSBpf/readings/ArrowNonMktActivity1969.pdf>.

<sup>93</sup> Peter Bauer, "From Subsistence to Exchange," *Princeton*, accessed August 29, 2010, <http://press.princeton.edu/chapters/s6828.pdf>

<sup>94</sup> Hoh-cheung and Lorna Mui, *Shops and Shop Keeping in Eighteenth-century England*, (Montreal: McGill University Press, 1989).

<sup>95</sup> Jacob M Price, "What Did Merchants Do? Reflections on British Overseas Trade, 1660–1790," *The Journal of Economic History* 49.2 (1989): 267-84.

<sup>96</sup> Richard Grassby, "English Merchant Capitalism in the Late Seventeenth Century," *Past & Present* 46 (1970): 87–107.

America was directly created by traders engaging in free markets. The breakthrough of free markets as described by Adam Smith not only created an efficient way for goods to be distributed throughout the population, but it propelled further growth by creating “human capital” and “commercial institutions and practices” that proved to be the vehicle necessary for such growth. Banking institutions and stock markets, for example, secured the financing for this growth using the capital of the merchants who were already trading the goods that they recognised had the potential for expansion.<sup>97</sup>

The hope is that internal trade itself will help to jumpstart undeveloped economies by creating a culture based more on trading and specialisation rather than subsistence, and this process will be self-perpetuating. As traders begin to provide desirable goods, that were previously unavailable, there will be considerable demand for them. In order for those goods to be purchased however, the would be consumers of these new goods will need to begin producing their own goods and services to exchange for them. Because these new goods are especially desirable, there is a further incentive to begin providing the services used to purchase those goods than before they arrived. Further, the more the economy develops to purchase these goods the larger the rewards become and the more pervasive the market activity becomes in the culture, which only fuels the growth further. Of course, this process is also considerably helped by external trading as well. By bringing in goods from developed economies, ones which the undeveloped economies could never provide themselves, this only creates even more of an incentive for the culture of trading to begin. Thus, this is even further argument for external trading, which is promoted by free trade, the other half of globalisation.

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<sup>97</sup> Peter Bauer, “From Subsistence to Exchange,” 3-4

Further, financial institutions and practices provide opportunity and a means to diversify economies. Stock markets allow companies quickly to raise capital to take advantage of opportunities that they wouldn't otherwise be able to. Futures markets allow, for example, speculators to take on the risk of bumper crops and provide an avenue for farmers to sell their crops before they are even grown. Further, because of the liquidity created by such markets, farmers will be encouraged to diversify and start growing crops that they otherwise wouldn't. This solves the problem of immiserising growth described in section 3.2 and the problem of bumper crops discussed in section 2.5.

The second crucial component of this half of globalisation, as I have defined it, is industrialisation. Clearly, there is a sense in which industrialisation is simply a specific case of the above forces, just like the division of labour or economies of scale. However, since it has had such a massive effect on the wealth generated by our economies, it is worth separating it and including it as a distinct part of globalisation in its own right, especially because in practical terms industrialisation can be used, for the most part, to distinguish what we consider the developed world, the developing world, and the undeveloped world. We have already noted the massive shift of the work force away from agriculture and into other sectors that occurred in the developed world thanks to the industrial revolution: in Great Britain, for example, the agricultural workforce halved in the ninety years between 1780 and 1870.<sup>98</sup>

Further, every other manufacturing industry, which necessarily represented a considerably smaller part of the total economy, saw similar gains of productivity because of industrialisation, and this growth is responsible for the considerable wealth that the developed world now enjoys. As Marks writes, "The lifestyle in the world we inhabit is made possible by

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<sup>98</sup> Martin Wolf, *Why Globalization Works*, 42.

the immense increase in material production spawned by the Industrial Revolution.”<sup>99</sup> Thus, the undeveloped world must embrace the culture that is the keystone of this development. They must adopt exchange or free market economies and they must utilise a division of labour and industrialisation. We shall consider objections to this position as nothing more than unashamed cultural imperialism in Chapter 4.1.

Clearly, there is the appearance of an undesirable component of industrialisation: workers have very little bargaining power when they first move to urban environments (these are often nothing more than slums) and they work therefore for meagre wages. However, assuming that they are rational, we have to conclude that they are better off than they would be otherwise, so banning the sweatshops where they begin to work is not an effective solution. Instead, we should focus on increasing the bargaining power of the workers even further, and this ironically requires more not less sweatshops. Thus, sweatshops are in the short term a force for good (all be it a fairly minor one), and in the long term they will become equivalent to the factories of the developed world with better wages and higher safety standards, and are therefore a part of a long term project that is a force for considerable good. We shall return to this point and elaborate on it in section 4.4.

### **3.4 Free Trade**

We have already noted that trades inherently increase total utility provided that we are prepared to accept that the agents involved are rational. In many ways this in itself is reason enough to support policies that make it easier for people to trade with each other both internally within a country and externally across borders. However, there is a further principle of trade that

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<sup>99</sup> Robert B. Marks, *The Origins of the Modern World: Fate and Fortune in the Rise of the West*, (Lanham: Rowman and Littlefield, 2007), 118.

applies even more between developed and undeveloped countries and illustrates further the benefits of free trade. Comparative advantage states that one should always specialise in what one does best, regardless if others do it better. We saw this principle at work in section 1.4 with the surgeon and the graduate student example. The surgeon makes £200/hour, while she is working at her surgery. The graduate student makes only £12/hour, while he is working as a TA. Even though the surgeon can mow her own lawn at a faster rate than the graduate student can mow it for her (suppose she could make £20/hour mowing lawns, and the graduate student cannot, because he is especially nonathletic), it is better for everybody if the student mows the surgeon's lawn. The surgeon could pay him, for example, £15/hour and he would make more money doing that than being a TA, while the surgeon can continue to work as a surgeon because she gets £200/hour doing that. Thus even though the surgeon is better at mowing lawns than the graduate student, if both parties specialise in what they do best, they both come out ahead and the result is growth.

To put the case in terms of countries rather than individuals we can consider the following example: the principle of comparative advantage states that often a country is better off trading a good that it can produce to a second country, even if that second country can already make that good for less than the first country. Suppose there are two countries (Luckyland and Inopportunia ) and only two commodities (doughnuts and dentures). Luckyland, due to some reason or another, (better technology or access to more resources) can make both of these commodities more effectively than Inopportunia. Let's also assume that both countries value both commodities in such a way that if ever they had more of one than the other, they would trade, if they could, the more abundant for the rarer.

Let's suppose that Luckyland can make either 40 tonnes of doughnuts or 40 tonnes of dentures, or it can make any combination of the two adding up to 40, and let's assume that Inopportunia cannot make nearly as much of either. Also, it can make more doughnuts than dentures. Let's say that Inopportunia can make either 24 tonnes of doughnuts or 12 tonnes of dentures, or some combination of the two, so long as the same ratio is maintained, such as 16 tonnes of doughnuts and 4 tonnes of dentures or 12 tonnes of doughnuts and 6 tonnes of dentures. Now assuming that they are not trading, Luckyland would make 20 tonnes of each (for a total 40 tonnes of product), which would be clearly utility maximising. Inopportunia, on the other hand, would make 8 tonnes of doughnuts and 8 tonnes of dentures (for a total of 16 tonnes of product).

However, suppose that they are able to trade. Inopportunia would be best to make entirely doughnuts, and Luckyland would be best to switch its production to make more dentures and less doughnuts, and both countries would be advantaged by trading doughnuts from Inopportunia for dentures from Luckyland. Inopportunia would make 24 tonnes of doughnuts and could trade 14 tonnes of them to Luckyland for 10 tonnes of dentures; they would be left with 10 tonnes of doughnuts and 10 tonnes of dentures, and they would have 4 more tonnes of product than they had before. Luckyland, which would now be making 32 tonnes of dentures and 8 tonnes of doughnuts, would be left with 22 of both, and they too would have four more tonnes of product. There would be 8 tonnes of additional goods produced, and, while in this case, these surplus goods are being evenly distributed, actually it is the bargaining power of the two countries which determines that distribution.

Plausibly, the richer country will actually have the upper hand in negotiating the terms of the trade, and we might expect them to receive a larger amount of the surplus, but in absolute

terms, provided that the poorer country is behaving rationally, we should expect both countries to be benefited by the trade, or they wouldn't do it. However, as we have seen in section 3.1, focusing on inequality is a separate debate, complicated by the two contrasting approaches of prioritarrians and egalitarians, and as I have argued, given the situation, we should be prioritarian in practice, as by far the most important thing is solving poverty first when people are actually dying of starvation. Therefore, it is not a viable objection to point out that the terms of trade, while theoretically being mutually beneficial, provide greater benefit to the already richer party rather than the poorer. Once the poor in the undeveloped and developed world are lifted out of poverty to the extent that they are no longer in danger of starvation, then the debate between prioritarrians and egalitarians becomes of interest, but until then priority should be our primary concern.

Undeveloped countries find themselves in this very position with developed countries. Often they cannot produce any good as effectively as the developed nations already can themselves, but provided that they produce some good better than others, or the developed country produces some goods better than others, they can still trade and create mutual growth. It is this theory that underlies much of the theoretical reason to support free trade, as Samuelson puts it in his famous economics textbook, "this simple principle provides the unshakable basis for international trade."<sup>100</sup> However, there is mounting empirical evidence to support the merits of free trade as well as the theory of comparative advantage.

The World Bank released a report in 2002 titled *Globalization, Growth and Poverty: Building an Inclusive World Economy*. In this report, it divided developing countries into two groups: 24 of them which had doubled their ratio of trade to income over the previous two

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<sup>100</sup> Samuelson and William Nordhaus, *Economics: 12<sup>th</sup> Edition*, 834.

decades, and the rest, which were actually trading less than they were 20 years before. The first group it commonly refers to as the ‘new globalizers’ or the ‘more globalized’ developing countries while the second group it refers to as the ‘less globalized.’ The difference in performance of those two groups of countries’ economies is striking. The new globalisers had a growth rate of only 1% during the 1960s. In the 1970s it was 3%, in the 1980s it was 4%, and in the 1990s it was 5%. Further, in the 1990s these countries were growing considerably faster than the already developed countries, which were growing at just over 2% on average during that time. The less globalised developing countries on the other hand have performed far worse. In the 1990s, their economies were shrinking not just compared to the rest of the world, but in absolute terms.<sup>101</sup> Clearly, liberal trade policy and free markets are highly correlated to growth. Further, while there have been cases where closed and non-liberalised economies have grown surprisingly rapidly, this has never been sustained for over two decades.<sup>102</sup> The evidence is clearly in favour of free markets and trade, which are amazingly correlated with growth in both developed and non developed economies.

Critics will no doubt quibble that the ‘new globalizers’ have not adapted every liberal trading and internal economic policy possible, so there is still much debate to be had on which of these policies are the crucial ones.<sup>103</sup> We shall deal with this objection in section 4.2 Also they will no doubt argue that the ‘new globalizers’ contain both India and China, and while both of

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<sup>101</sup>Paul Collier and David Dollar, *Globalization, Growth, and Poverty: Building an Inclusive World Economy*, (Washington D.C.: World Bank, 2002), 5.

<sup>102</sup>Bhagwati, *In Defense of Globalization*, 272.

<sup>103</sup>For example see, Robert Hunter Wade, “Globalisation, Poverty and Income Distribution: Does the Liberal Argument Hold?,” *Globalisation, Living Standards and Inequality: Recent Progress and Continuing Challenges*, Accessed September 12, 2010, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.122.576&rep=rep1&type=pdf#page=41>, 60.

those countries have had large amounts of their population lifted out of poverty,<sup>104</sup> there are still large portions of their population that have remained poor, especially in rural areas, that in terms of population size easily are equivalent in size to some of the less globalised countries that did not grow, so globalisation has not worked in their cases.<sup>105</sup>

However, we have already addressed this criticism to an extent, and in section 4.4 we shall see further why globalisation cannot help everybody at the same speed, and why certain segments, especially the extreme poor, in developing countries may need to wait longer to see the gains of globalisation as compared to the other comparatively more advantaged segments already within that population.

## **Conclusion**

Thus, globalisation should be supported. For the ordinary person this is a difficult project, but there are at least small steps that we can take. We can resist calls to boycott goods made in sweatshops and to buy goods and services that eschew practices that employ sweatshop labour, because although sweatshops are not the goal of development, they are part of the process of development. Perhaps most importantly we can vote for and encourage our governments not to engage in protectionist policy that hampers trade with developing and undeveloped countries.

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<sup>104</sup> In fact, they have had an incredible amount of their populations lifted out of poverty, China taken by itself, has lifted a larger amount of people out of poverty in a 30 span than has ever occurred in history.

<sup>105</sup> Wade, "Globalisation, Poverty and Income Distribution: Does the Liberal Argument Hold?," 49.

## Chapter 4

### Introduction

In this final chapter we look at objections that may be raised against my position. Specifically, we will consider objections that turn largely on empirical claims that opponents of globalisation may disagree with me over. Unfortunately due to space constraints, it will probably not be possible to answer every objection to the satisfaction of those who raise them. However, I hope to provide a response that at least demonstrates that there is a viable position that those in favour of globalisation may at least employ, and perhaps further, to persuade a reader who is less committed to either position that globalisation's proponents have the more solid ground to stand upon. In section 4.1 we shall respond to critics who assert that globalisation is cultural imperialism and should therefore be objected to on that ground. In section 4.2, I respond to the objection that we should moderate globalisation with protectionist policies, because we need to take into account individual countries' and regions' particular circumstances. In section 4.3, I respond to an alternative version of fair trade, that we should boycott and impose protectionist policies on free trade goods, and finally, in section 4.4, I consider the objection that globalisation will lead to perpetual inequality, where developed nations will forever trap the undeveloped and developing world into a state of servitude, so that they remain constantly poor and therefore forced to provide cheap goods for the developed world's benefit.

#### 4.1 Paternalism, Cultural Imperialism vs Relativism, and Rationality

A frequent objection to globalisation is one that complains that its proponents do not appreciate the value of the lives of many in the undeveloped world, and they argue that globalisation is cultural imperialism. I mentioned this objection in section 1.3, the introduction to

chapter three, and in section 3.3. Critics who make this objection against globalisation agree that poverty is a massive problem, but they take as an assumption that globalisation is a force for evil, because they see globalisation as replacing an old and better way of life with a new life of poverty. This assumption is largely prevalent because of the confusion between relative and absolute poverty, which creates the false impression that globalisation is making poverty worse, because it often appears to be increasing inequality, and as we have seen, once the confusion is resolved, this assumption is false. However, because of that false assumption, opponents of globalisation are able to rely on the following often implicit reasoning.

1) Globalisation is changing the way that people live in undeveloped countries so that they are becoming westernised; i.e., they are adopting free market economies, industrialising, and moving to urban environments.

2) Poverty is getting worse because of this process; i.e., the people's lives are worse. (false assumption)

3) However, in many economic terms, (GDP per Capita for example) these countries are improving.

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4) Therefore, the way of life in which these people used to live must not have been captured properly by these economic analyses, and it was wrong for the people living in those countries to lose their culture.

Saul in *The Collapse of Globalism* writes the following:

Meanwhile, a growing number of highly respected figures speaking outside of the Western democracies are turning their backs on theoretically scientific interpretations of global success such as trade statistics and cumulative GDPs. What they see are real people whose actual standard of living apparently must drop in order for them to appear to rise in Western-style statistics[....] These people may have been living a life beyond such measures –perhaps rural lives. They are therefore technically existing on zero income. Then they move to a desperate urban slum where dirty water, sewage and alienation are the norm. But in such a place, even a dollar's worth of income can be measured. And so Western measurement systems say they have taken a step forward and upward.<sup>106</sup>

<sup>106</sup> Saul, *The Collapse of Globalism: And the Reinvention of the World*, 23.

The position takes the airs of superior tolerance, which is perhaps cultural relativism's only virtue, or indeed yet another of its many vices. It purports to ask, *who are we to tell others in faraway lands how they should live?* And then it answers this rhetorical question with supreme humility: *we are indeed in no position either to prescribe or proscribe how others should live and to presume that our values are universal.* However, buried beneath this veil of humility is extreme paternalism. The view itself assumes that these people, who used to live such idyllic "–perhaps rural lives" – need us to remind them of this fact. Alas, according to these critics, unfortunately we are too busy measuring these peoples' rising GDPs to find the time to point out to them that they are so much less happy than they used to be.

This dispute can be put to rest easily. If we assume that people are for the most part rational (as I do), then we can see how preposterous the claim that, for example, *urbanisation is not a force for good, but indeed the opposite*, is. Rational people don't move to the city and immediately forget the lives that they left behind, so they also don't stay in the city if the lives that they left behind were clearly better than their new ones. From afar it may be surprising that people choose to abandon their rural subsistence farming lives to move to the slums of nearby cities just to have the privilege of working in sweat shops for pennies an hour, but that is only because we compare the lives that they are moving to, to our own lives and not to the rural lives that they were previously living. Clearly, subsistence is not all that it is cracked up to be, if the life in slums is superior to it, and if we accept that, then that is even more reason to support the industrialisation of agriculture.

Thus, I reject the objection that globalisation is unconscionable cultural imperialism. It is certainly true that there is a considerable cultural shift throughout the world, and countries are certainly becoming more westernised, adopting free market systems and industrialisation, but

this shouldn't be lamented in itself, indeed it should be celebrated. Cultural imperialism is evil when the change in culture that results from it is being intentionally imposed by the powerful upon the weak and against their will. However, this is not the case with globalisation, or it certainly doesn't need to be the case. While famously the IMF and The World Bank do put stringent conditions on their aid and loans, the vast majority of globalisation occurs naturally as market forces favour efficient practices such as mass production, industrialisation and the division of labour. It is this force that primarily is responsible for the westernisation of the developing and undeveloped world and it is further evidence that globalisation should be favoured, because the fact that people are adopting these practices inherent to globalisation, is evidence of its virtue, not its sinister intent to destroy their cultures.

#### **4.2 Other Undue Appeals to Moderation**

In Section 3.4, we noted that there were several objections that might be raised against the position of trade liberalisation. One of those objections was that perhaps we should consider breaking down the dichotomy between free trade and market economies on one side and protectionism and regulation on the other, because as every country and region is different, a host of different policies from both positions may be the best solution. Further, this objection could easily be raised for much of what was said in other parts of my thesis, especially 3.3 and 3.2 as well. Thus, let's consider the debate over the extent that we should advocate liberal policy. It is true that there is a continuum of possible economic and public policy that we may choose from. If we try to shunt the debate, awkwardly, into the standard right wing vs left wing dichotomy, we might classify neo liberal policy as to the right and various less globalised alternatives to the left.

The extreme of right wing policy has as of yet existed only in the minds of its proponents, such as Ayn Rand or Robert Nozick perhaps, as a paradise of freedom and self-sufficiency. Clearly, we should not require developing countries to go to such far fringes of possible policy, because no countries in the developed world have ever implemented it themselves, so, while its proponents may insist that it would be a further step forwards, one that we would benefit from too according to them, it is obviously not necessary. This argument is sound, but it can easily be taken too far.

Critics of globalisation are quick to argue that we cannot assume that every liberal trade policy has been efficacious, just because on the whole liberalisation of markets has been<sup>107</sup> (if they are even prepared to grant that), so we should remain open; we should be prepared to adapt a mixture of policy. This hybrid policy could easily depend on a host of factors, so it would vary case by case. Thus, we should not be afraid of espousing liberal trade policy, yet also be prepared to recommend non liberal, perhaps protectionist, policy when individual circumstances require it.

There are reasonable debates about how far to embrace free trade, eschew protectionism and institute regulations to fend off monopolies and other warts of the market. But there is also an obvious trend that it is essential to identify correctly. Command economies have failed. Market economies and industrialisation have proven to be far superior, and on the continuum between the two extremes we are arguing about where to place our policy in a relatively small range, clearly on the side of the free market. There is no disputing that as a trend the countries that have accomplished, what is the direct goal of free trade policy, an increase in trade, have

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<sup>107</sup> Wade, "Globalisation, Poverty and Income Distribution: Does the Liberal Argument Hold?," 53.

done considerably better than those that have not over the last 40 years, and that through history this trend has been repeated.<sup>108</sup>

### **4.3 Boycotting, Protectionism, and Human Rights**

We now move to price floors and another form of anti-globalisation which is often associated with fair trade. In the introduction of chapter 2, we noted that there is a second position often termed, or at least associated with, fair trade. In this approach, the focus is put on raising the working conditions of workers in developing economies by mandating it through regulation. There are primarily two motivations for this: one is advocated by those who are mostly worried about workers in developed countries having to compete with people living in much poorer parts of the world. This position is often associated with the catch phrase ‘race to the bottom.’ Secondly, there are, of course, proponents of boycotting goods from developing economies who have entirely selfless motivations, and these people argue that we should boycott companies that rely on goods made in sweatshops and that we should impose sanctions on the countries that allow such labour practices to be carried out within their borders, because they argue that it will benefit the workers of those countries.

While it is far too cynical to assume that the advocates of this anti-globalisation position are entirely in it for their own sake and have little to no regard for the workers who they see as the threat, it is clear that for many of them protectionism is a major goal of the policy that they espouse, because of the benefit it will have for workers in the developed world. For example, the American Federation of Labor-Congress of Industrialized Organizations (communally abbreviated as the ALF-CIO) and the International Confederation of Free Trade Unions (which

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<sup>108</sup> Collier and Dollar, *Globalization, Growth, and Poverty: Building an Inclusive World Economy*, 23-38.

is commonly abbreviated ICFTU) support a social clause that would allow sanctions to be brought on countries, through the WTO, that fail to require companies in them to live up to certain working condition standards, especially child labour laws.<sup>109</sup> Given their purpose is primarily to benefit their members' workers, there is at best a conflict of interest, and at worst a blatant attempt to circumvent the WTO's mandate to promote international trade and to impose protectionist policies at the expense of consumers in the developed world and the workers in the developing world who are supposedly the beneficiaries of the policy. In other cases this view advocating protectionism is proposed entirely, and unashamedly, because it will benefit the developed world, surprisingly from both the right and the left wing. For example Pat Buchanan in "Time for Economic Nationalism,"<sup>110</sup> and the American Senators Dorgan and Brown who wrote the following in a coauthored article published in the Washington Post called "How Free Trade Hurts:"

We must insist that all trade agreements have labor, environmental and other protections so that American workers can compete on a level playing field. Trade agreements must also be reciprocal. The American market is the most desirable in the world. Every country wants access to it. That gives us a great deal of leverage, if only we'd use it.<sup>111</sup>

However, there are certainly advocates for both the social clause and other similar measures to be taken who do not have such conflicts of interest or selfish motivations, so it is this position that we shall be considering. We will thus look at the argument as one that is advocating these measures purely to help alleviate poverty in the developing world. And, it is in terms of how effectively it achieves this objective that we shall evaluate it. Essentially this

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<sup>109</sup> Bhagwati, *In Defense of Globalization*, 34.

<sup>110</sup> Pat Buchanan, "Time for Economic Nationalism," *Patrick J. Buchanan - Official Website*, June 12, 1995, Accessed August 12, 2010, <http://buchanan.org/blog/time-for-economic-nationalism-174>.

<sup>111</sup> Bryan Dorgan and Sherrod Brown, "How Free Trade Hurts," *The Washington Post*, September 23, 2006, Accessed August 29, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2006/12/22/AR2006122201020.html>.

approach takes two forms in practice, first boycotting certain stores, (such as Walmart or the Gap) which is a position often associated with the anti-globalisation author Naomi Klein in, for example, *No Logo*<sup>112</sup> and *Fences and Windows*.<sup>113</sup> And secondly, supporting protectionist policy that penalises countries that allow such labour conditions to exist within their borders, like the proposed social clause for the WTO, for example, argued for by many anti-globalisation and anti-sweatshops advocacy groups, such as the National Labor Committee.<sup>114</sup>

However, there is a major theoretical problem that such policies have, and because of this they often hurt, ironically, the people that they are supposed to help. We shall look at both what occurs when a price floor is established, and why in many ways the movement to enforce worker's rights in the developing world is equivalent to a price floor.

A common case cited in economic text books is what theoretically occurs when minimum wage laws are established. This is very similar to the effect of mandating better working conditions in sweat shops in developing countries. Effectively, in by far the majority of cases, better working conditions are valuable to employees and costly to employers. I draw a distinction between the workers who are actually employed (henceforth 'employees') and the total group of people who potentially could be employed (who I shall call simply 'workers'). Thus, it is to the benefit of the 'employees' to have higher wages mandated by regulation, though as we shall see shortly, it will often not be of benefit to the group of workers as a whole, some of whom will be unable to work, because of the policy. Thus, insisting that goods are made while paying wages high enough to guarantee a certain quality of living and/or working conditions for the workers

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<sup>112</sup> Naomi Klein, *No Logo* (London: Flamingo, 2001).

<sup>113</sup> Naomi Klein and Debra Ann Levy, *Fences and Windows: Dispatches from the Front Lines of the Globalization Debate* (New York: Picador USA, 2002).

<sup>114</sup> National Labor Committee, "About," accessed September 17, 2010, <http://www.nlcnet.org/about>.

who are making them, creates a minimum cost that is higher than it otherwise would be. Thus, this has a similar effect to setting a price floor on a good or instituting a minimum wage.

It is important to note that I am not advocating that we necessarily abandon all policies that have this effect (though as we shall see, it is important to be very careful when implementing these policies, as they often do more harm than good to the people they are designed to help), because there will be some cases where the cost will be minimal and the benefits large, such that if the workers were aware of them, they would insist upon them themselves. However, in these cases, what is effectively happening is a third party, such as developed countries' consumers or regulators (possibly responding to special interests within their countries, such as trade unions whose members are being threatened by the lower cost goods being produced), is forcing this (supposed) benefit onto these workers, and it is assuming that the workers are ignorant to what is actually best for themselves (or worse—as is often the case when regulators are responding to special interests within their own country—unconcerned entirely with the costs that workers in the developing world will incur because of these policies). In certain cases it is true that, because of the ignorance of workers, there is a policy that would benefit them greatly that they are not demanding; e.g., there may be an especially toxic dye that is being used in the goods that they are manufacturing, and this dye may be only slightly cheaper than alternatives. However, it is important to note that in these cases, we require assuming that the workers are not behaving rationally, when they allow the practice to continue, and as we have seen, we need to be especially careful when making such an assumption. It is reasonable to assume that usually this is not the case, and the workers are behaving rationally.

Further, in some cases, the policy designed to increase the working conditions of the workers can be clearly in neither the employees' nor the employer's interests. These might take

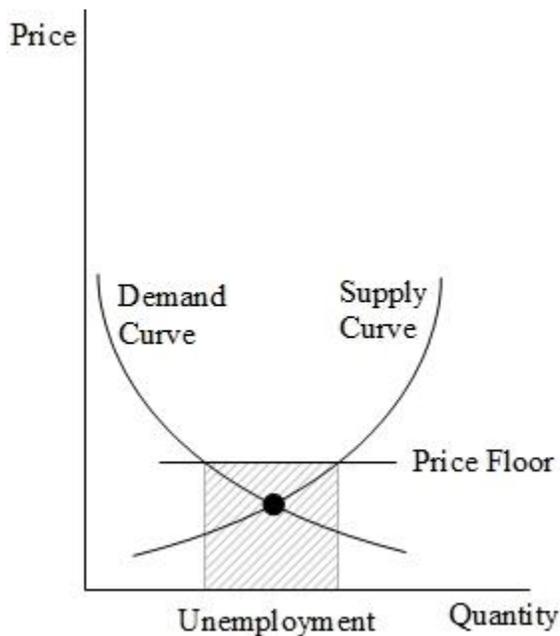
the form of limits on the hours that the employees are permitted to work in a day or a week. This can be seen by considering the following case: assume, first of all, that employees have not been given a minimum, or at least not an onerous minimum, amount of hours to work in a week or a day. Most people are the best judges of their own preferences as to what constitutes the optimum balance of work and free time, and if shorter hours were to the benefit of the employers, then they wouldn't allow their employees to take such long hours in the first place. Thus both the employees and the employers are probably being harmed by a policy that restricts the amount of work in which the employees are allowed to engage in, in such a case.

However, it is safe to assume that in most cases when policies are implemented with the intention of raising the living standards of workers in the sweat shops of the developing and undeveloped world, these policies do at least accomplish that goal for the employees, if not for the workers as a whole. However, despite it being true that measures to increase the living conditions of employees in sweatshops does increase their welfares, it is still usually bad policy to adopt such a practice, because it hurts the workers on the whole, specifically the workers who are no longer able to get jobs because of the practice. To illustrate this point let's look at price floors and minimum wages.

We have noted that employment is analogous to a trade. Workers are hired by companies only if their labour provides the company with more value than the cost of the wages those workers are paid, and similarly, workers will only work for a company provided that they are compensated by more than they would be in other available jobs. Thus, both the workers and the company are benefited by the arrangement, and if either are not, then they will terminate the arrangement. If a government policy mandates a wage floor, essentially if a government requires that all workers must be paid over a certain minimum amount, then certain jobs are removed

from the economy, unless the wage floor is set so low as to have no effect: i.e., if the forces of competition are already requiring manufacturers in the labour market to pay above those wages.

We can look at this in terms of supply and demand. The higher wages are, the more workers will want to work, and this is represented as the supply of labour. Similarly, the higher wages are, the less companies will hire, and this is represented by the demand for labour. Thus, any job that is only profitable for companies below the price floor is destroyed, and any worker who would have provided that job at that rate of pay is forced clearly, as a worker would only have been prepared to fill that job if a better job was not available, into unemployment and is, therefore, harmed by the policy. Ironically, it is the most unskilled and disadvantaged workers who are the victims of such a policy, exactly the people that it is supposed to help.



Boycotting goods because they come from sweatshops in the developing and (potentially) the undeveloped world has similar effects. First of all, it reduces the profits that those sweatshops make, and it reduces the demand for the products that they supply. This slows down the process

of globalisation, and, as we shall see in the next section, ironically the problem with the labour conditions in those sweat shops that such a policy hopes to rectify is that there are not enough of sweatshops to provide a competitive labour market –not that there are too many of them.

Further, if the policy were to become effective, if it was actually possible to communicate to the owners of the sweatshops that the reason that we are not buying their goods is because of the working conditions in their sweatshops (which is a dubious supposition in itself), it would have exactly the effect of a minimum wage discussed above. Those sweatshops would be forced to pay wages above the equilibrium price, and this would create a considerable surplus of a labour, in the form of unemployment, which would be directly against the interest of the workers in those sweatshops. Thus, this version of free trade is actually far worse than the version that we discussed at further length in chapter 2. At least in that version proponents of fair trade were, probably, helping the workers in the developing and undeveloped world as a whole, although inefficiently. With this form of fair trade, the workers who the policies are supposed to help are directly harmed by such policy, and the world would be better off without it entirely.

#### **4.4 The means of production, profits and Inequality.**

A favourite criticism of globalisation is one that is similar to the Marxist worry over access to the means of production. However, now the focus is on ‘profits.’ With this objection globalisation’s critics can grant that while the working conditions of sweatshops are poor, those working conditions are at least better than the alternative (though of course they don’t have to grant this, and often times they do not). However, they worry that as globalisation continues, all of the factories that are created will be owned by foreign investors, or benefiting foreign owned companies, who will constantly be siphoning off the vast majority of the profits that those

factories create. If shoes cost a multinational company only pennies each, and they turn around and sell those to consumers in the developed world for £50, the developing world is seeing only a fraction of the purchase price. The worry becomes, will this not create a legacy of perpetual inequality? While technically not slavery, because the workers are not being forced against their will, they have such little bargaining power they effectively have no choice but to work in brutal conditions for tiny wages. The industrial revolution brought similar worries. The early days of the industrial revolution are well remembered. The works of Charles Dickens, for example, paint a grim picture of the contrasting lives of the working class compared to the owners of the factories where they worked.

There is no doubt that during the beginning of the industrial revolution factory owners got rich while their employees' lives hardly improved. Given the discrepancy between the lives of the workers and the factory owners, it is easy to see how one could become confused about the nature of the problem. The obvious difference between the two groups was of course who it was that owned the factories, or the means of production, and of course it was the owners who pocketed the massive profits that those means were producing. At the time many were certainly worried that that situation would persist forever: the factory owners (the few elite) might become the new kings, owning everything, while the workers (the vast majority of the population) would live in near destitution, barely surviving with what little the factory owners paid them.

It is important to note though that those worries have for the most part abated since the industrial revolution without any radical movement away from capitalism or market economies in Britain or the rest of the developed world, and there is a clear reason for this. The problem was not who owned the means of production, but how little of it there was. Let's take the textile industry for example, because it epitomises the situation especially well. The invention of the

steam engine along with other engineering advancements, such as the flying shuttle, meant that it quickly became possible for a very few unskilled workers to produce considerably more cloth than textile workers were previously able. The result was a huge amount of people were put out of work by this considerable advancement of the industrial revolution, because even though the factories couldn't employ them all, those factories were still making far more cloth than those workers were able to in the past, and they could no longer compete at all.<sup>115</sup> Those workers and more from other industries swarmed to get jobs in textile and other factories, but as there were very few people who possessed the skills and the capital to construct the factories, and because the labour required to work the machines was unskilled, or required entirely new skills, there was bitter competition for those jobs.

This competition massively reduced the bargaining power of the workers and meant that the considerable surpluses that were being created by those factories were being claimed almost entirely by the owners. But the more money those factories made, the more incentive there was for the owners to increase production and build more factories, and the more incentive there was for other entrepreneurs to begin to build competing factories. Slowly more and more factories came online and slowly the massive surplus of labour was exhausted. The result of that was the reduced bargaining power of the owners and it is this that allowed the workers to begin to claim a larger percentage of the surplus that those factories were creating, especially by the creation of unions which the factory owners eventually had to allow, because they knew that if they didn't, those workers would soon be operating the spinning mules of their competitors.

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<sup>115</sup> Marks, *The Origins of the Modern World: Fate and Fortune in the Rise of the West*, 109-10.

This same story is playing out in the developing world today. Just as the luddites and other machine breakers destroyed the looms of an emerging industrial textile industry,<sup>116</sup> in a selfish yet ironically misguided attempt to protect their way of life at the expense of everybody else, critics of globalisation are attempting to halt the tide of development because of the same fears. Of course, as is now clear, slowing the process of industrialisation was not to anybody's long term advantage and not to the economy's, as a whole, short term advantage either. The vast middle class that exists today, thanks to industrialisation, is populated by people who would have filled out the rank and file of the poor in the past. Also, while the luddites, made up of textile workers who were losing their livelihood, were temporarily made worse off by industrialisation, we have to remember that they were incredibly poor by modern standards anyways and, had industrialisation not happened, they still would be –along with everybody else.

We must also remember that the reason the factory owners were making such profits from their new factories was because there was such a demand for the cloth that they were making. Though there is no question that the textile workers, whose interests the luddites represented, were made worse off, the consumers of the new fabric were benefited considerably due to the massive amount of more cloth being produced. While we may look back at the working conditions of the factories, which were essentially the sweatshops of today, with distaste, that's because we are looking back at those conditions with modern sensibilities; we of course overestimate the utility of the lives that those unskilled workers were leaving behind, which presumably were even worse, or they wouldn't have been flocking to the cities to take up

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<sup>116</sup> Kevin Binfield, "Luddites and Luddism," An excerpt from *Writings of the Luddites* (Baltimore: John Hopkins University Press, 2004) *Murray State University*, accessed September 17, 2010, <http://campus.murraystate.edu/academic/faculty/kevin.binfield/luddites/LudditeHistory.htm>.

positions in the new factories. Thus, at no point was the economy or the population as a whole worse off because of industrialisation.

Finally, it is worth noting that on the whole there is little doubt that despite globalisation's potential, in the short term, to increase inequality for large sections of the world's population, world inequality on the whole has been falling, depending on which studies one accepts, since at least the 1980s.<sup>117</sup>

## Conclusion

Writing on poverty is a daunting prospect, and so is trying to understand how to come to grips with it, not only for governments, aid agencies, and charities, but also for ordinary people as well. There are so many complicated and intertwined issues, like demandingness and which charities and policies to favour, that it is easy to become paralysed wondering what, if anything, we should do –often to the extent that we do nothing at all– when there are simple and non-demanding actions that we can take right now to help solve poverty.

The extent to which people want to sacrifice their own fortunes is a question that I have ignored almost completely in this thesis, but assuming that we do wish to do at least something to reduce poverty, then I hope that the approach that I have advocated can provide assistance regardless of the extent that a normal person might want to endeavour to do so. Certainly, I hope

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<sup>117</sup> See for example, Andrea Boltho and Gianni Toniolo, "The Assessment: The Twentieth Century – Achievements, Failures, Lessons," *Oxford Review of Economic Policy* 15.4 (1999): 1-17; Ximena Clark, David Dollar and Aart Kraay, "Decomposing Global Inequality, 1960-99," (Washington D.C.: *World Bank*, 2001); Xavier Sala-i-Martin, "The World Distribution of Income (Estimated from Individual Country Distributions)," *Columbia University Discussion Papers Series*, 2002, accessed August 29, 2010, <http://www.econ.columbia.edu/RePEc/pdf/DP0102-58.pdf>; Surjit S Bhalla, *Imagine There's No Country: Poverty, Inequality, and Growth in the Era of Globalization* (Washington, D.C.: Institute for International Economics, 2002); David Dollar, "Globalization, Poverty, and Inequality Since 1980," *The World Bank Research Observer* 20.2 (2005): 145-75.

that I have provided reasons to avoid certain approaches, which don't benefit either the developing or undeveloped world or the would be donator.

I have argued that we should take a consequentialist approach to thinking about the problem of poverty and one based on absolute welfare rather than relative inequality. I have argued that we should not support fair trade, instead using the same amount of money to support charities that will bring aid to the people who need it more efficiently. I have also argued that we should support globalisation and buy products that have been made in the developing world, even if the working conditions under which they are made are less than ideal, and I have argued that we shouldn't favour protectionist policy, either because it helps workers in the developing world or especially because it helps workers in the undeveloped and developing world, because it does neither.

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