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Abstract

Economists are political philosophers. This claim is defended based on an investigation of normative arguments made in economics textbooks. The paper aims to explain, reconstruct and contest the *neoclassical vision* implicit in mainstream economic trade theory. Analyzing arguments made by international economists from the perspective of political philosophy, I show how the contemporary defence of free markets and trade liberalization is linked to a specific normative ideal of the political and social good.

Keywords

Political Philosophy, Neoclassical Economics, Normative Trade Theory, Free Trade, Efficiency, Textbooks, Kaldor-Hicks, Neoclassical Vision.

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Max Weber Fellow, 2013-2014

Introduction

Among economists, there exists an unrivalled consensus on the desirability of free trade. This consensus includes both the endorsement of liberalization (as a policy-induced process of economic change) and the endorsement of free trade (as a state of affairs). Surveys of professional economists show that there is an identifiable mainstream economic argument on trade policy.[1] This does not mean that economists agree on the desirability of trade agreements or on the minutiae of trade policy – but that there is agreement on the general case for free trade, which is the argument under investigation here.

The mainstream argument draws on microeconomic argumentation. Indeed, the basic way international trade is conceptualized is as an application of more general microeconomic principles. This conceptualization is widely taken for granted. Trade theory and microeconomic theory have historically developed in close proximity, so that advances in microeconomic theory have automatically also advanced trade theory. Philosophical and methodological critiques of contemporary trade theory (of which there are few) must hence pay attention to microeconomic theory (of which there are plenty of critiques). The different approach taken here is to look at normative trade theory from the perspective of contemporary political philosophy.[2] If a political philosopher were to pick up a textbook of international economics, what would strike her as particularly noteworthy?

This *case study* is a critical exposition of what mainstream economists present as being good trade policy – and of what the implicit normative assumptions of the theoretical arguments presented are. I will argue that, together, these tenets amount to something that merits the term *neoclassical vision*.[3] I will argue that the way international trade is treated by economists in textbooks and in public argument is the most pronounced instance of a *neoclassical vision* of the economy. Here, economists are political philosophers.

Section 1 describes textbooks as transmission vehicles for the *neoclassical vision*. Section 2 analyzes the ethical foundations of normative trade theory and shows how comparative advantage and Kaldor-Hicks efficiency arguments introduce further normative commitments. Section 3 shows how these normative assumptions are then translated into policy recommendations. Section 4 outlines what trade economists believe to be *natural* and *fair* (re)distributions. Section 5 derives the role that politics plays in the textbook account and scrutinizes how economists justify their philosophical views. The last section concludes.

1.1 Textbooks as Transmission Vehicles of the Neoclassical Vision

The main body of reference will be undergraduate (and occasionally, graduate) textbooks. These are important transmission vehicles in at least two respects. First, while journal articles represent ongoing debates in economics, textbooks represent *received theory* (Johansson, 2004). Textbooks, hence, reflect the dominant discourse of a discipline, and summarize the state of the art that *has* to be transferred to the next generation of scholars. Second, textbooks are the entry point of students into the discipline. Especially in economics, textbooks have an important, though largely unwritten, history of their own.[4] In Anglo-American universities, economics is taught largely through textbooks.[5] The

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[1] See surveys by Kearls et al. (1979), Frey et al. (1984), Alston et al. (1992), Fuller (2003), Whaples (2006, 2009), Klein & Stern (2007).

[2] Broadly understood as the "philosophical reflection on how best to arrange our collective life - our political institutions and our social practices" (Miller, 1998, p.1).

[3] George DeMartino has coined the term *neoclassical vision*. In this paper, I use a broader definition that encompasses the totality of implicit and explicit normative assumptions that concern the social and political good of a society and which are expressive of a *neoclassical* political philosophy.

[4] Think of the lineage from Alfred Marshall's "Principles" (1890) to Paul Samuelson's "Economics" (1948) to Greg Mankiw's "Principles of Economics" (2007). Textbooks are enormously influential, and while scholarly critique and reception of these works shapes their content in later editions to some extent (Giraud, 2011), generally, textbooks in economics have tended to reflect and cement, rather than to challenge, orthodoxy. See for instance the recent so-called

market for economics textbooks itself (at least in microeconomics and in international economics) is fairly oligopolistic: a few blockbuster textbooks dominate the market.

Trade textbooks have rarely been studied with regards to the kind of normative arguments made within them.[6] For example, there is no analysis that asks specifically what underlying theories of (distributive) justice can be uncovered from the premises found in textbooks and in economic teaching. There are only a few examples of scrutiny of textbooks from a broadly normative point of view from within the discipline of economics: DeMartino (2002) cites textbooks when he attacks the theory and policy recommendations of what he terms the *neoclassical vision*. Driskill (2012), for instance, analysed textbooks, as well as popular writings by economists, focusing specifically on the normative premises of the trade theory chapters in Krugman and Obstfeld's textbook. Driskill argues that standard arguments employ misleading analogies, make empirical leaps of faith and intentionally obfuscate implicit value judgments, presenting an "incomplete and misleading case" for free trade where "one would hope for the best analysis the profession has to offer" (p. 6). In what follows, I will argue that Driskill is right, but that the situation is even more serious than he thinks. At the end of this investigation, another reason why textbooks are important may become apparent. They tend to matter as vehicles, wittingly or unwittingly, of a political philosophy of a special kind. This would conform to the statement ascribed to Paul Samuelson: "I don't care who writes a nation's laws, or crafts its advanced treaties, if I can write its economics textbooks".

The brand of political philosophy we find in textbooks is the *neoclassical vision*. Its essential features are the following: the *neoclassical vision* advocates for efficiency as a demand of *justice*. The free market is the optimal social organizing mechanism, and market orders are regarded as *natural* and their resulting socio-economic distributions as *fair*. Politics should serve the market; redistributive complications, if they arise at all, can be largely ignored. Polities *should* and *will* follow the policy recommendations of orthodox economics, and particularly those made by *economists*. The *neoclassical vision* justifies an elevated role of the economist as making authoritative decisions about right and wrong, and as being the guardian of efficiency against competing social values. Yet rhetorically, despite making arguments about the social and political good of societies, *the neoclassical vision* pretends to not be rooted in any specific philosophical tradition. It presents itself as neither historically situated nor as relying on distinct ethical or political philosophical commitments. This inherent contradiction is most clearly visible in the pedagogy of the sub-discipline of *normative trade theory*.

1.2 Textbooks Are Special

Textbooks in economics are special. They are special in the sense that there are almost no textbooks that introduce the student to alternatives to mainstream economics. This is mostly, as could be argued, because the majority of economics texts do not situate themselves within the history of economics. The prevalent understanding about economics is one that assumes that today's dominant approach is

(Contd.)

"Anti-Mankiw" movement (which is a play on the leftist critique of Samuelson by Linder & Sensat (1977) in their "Anti-Samuelson") in which Mankiw's textbook is criticized (Anti-Mankiw-Blogging-Collective, 2012). See also Reddy & Chappe (2012) who engage in a public critical reading of Mas-Colell, Whinston & Green (1995), arguably the most influential textbook in microeconomics today. Textbooks have only occasionally been the subject of investigation in the history of economics, despite their influence.

[5] Throughout, I will draw most of my arguments directly from textbooks of international economics. Several textbooks cited in the bibliography represent the mainstream approach outlined here. The focus here is on textbooks used in the syllabi of English-speaking universities covering topics in international economics and microeconomics (mostly drawn from UK and US graduate programmes). See Lucier (1992) for an overview of the most influential textbooks and on the limits of rigorously studying textbooks of economics for practical reasons.

[6] An eclectic mix of exceptions includes Feiner & Morgan (1987), Clawson (2002), Gray (1992), Feiner & Roberts (1990), as well as some works from heterodox economics (Keen, 2011; Lee & Keen, 2004). With respect to trade, there have only been a few critiques that engage with broader normative issues. An exception is the *feminist economics* movement, which has formulated specific problems with mainstream trade theory and gender (van Staveren, Elson, Grown & Cagatay, 2012). While calls for reform of economics teaching have intensified following the 2007/8 global financial crisis and while these protests also scold mainstream economics for its normative commitments, these calls rarely refer to or cite works of political philosophers, nor do political philosophers pay much attention to heterodox economics and its quarrels.

simply the one that has “stood the test of time”. Alternative views were lacking in certain respects and have *therefore* not ‘survived’. Hence, textbooks subscribe to the Whig theory of the history of economics, as is often pointed out by economics methodologists (McCloskey, 1994). There is a second, somewhat paradoxical, sense in which economics textbooks are special, and unlike their counterparts in both hard and soft sciences. Contemporary textbooks in economics, and especially those that also engage in *normative trade theory*, present policy recommendations to their readers. Imagine the counterfactual oddity of a textbook in “applied political science” or “normative sociology” that gave concrete policy advice. *Normative trade theory*, on the other hand, seems founded on a distinct vision of what is desirable for society. It has been the task here to give this vision contours. As of yet, there is no comprehensive critique that attempts to show these contours within the mainstream arguments on trade policy. A critical investigation of textbooks matters because economics often prides itself on offering a counter-intuitive and often controversial new perspective on the social world that does not shy away from being applied to all domains of human life. Students who take Trade 101 classes may never go beyond the textbooks. Likewise, scholars from adjacent disciplines may all too easily take insights from textbooks as gospel, disseminating coarse-grained arguments from introductory texts into neighbouring fields (for trade, examples in law and philosophy, and political science come to mind).[7]

1.3 The Structure of International Economics Textbooks

International economics textbooks are traditionally divided in two parts: one deals with international trade theory and another one with international finance and international monetary theory. [8] The common distinction between positive and normative economics finds a physical representation in a clear division into chapters on positive trade theory on the one hand and chapters on *normative trade theory* on the other. These chapters build on microeconomic models, using both general and partial equilibrium analysis as their means of exposition. The standard microeconomic model used is static equilibrium analysis of two economies, in which one usually represents *home*, the other the *rest of the world*. This model assumes perfect mobility of the factors of production domestically but not globally, existing resources, full employment and perfect competition. Free trade is efficient and raises welfare, shifting outward both the production and consumption possibility frontiers, enabling a nation to produce and consume more. Free trade aids the efficient allocation of the trading countries’ resources and, usually, it is assumed that all trade is balanced. (Potential) preference satisfaction of individual economic agents is optimized, incomes and rents are distributed according to marginalist principles. Free trade is preferable to autarky, which would have to be enforced through protectionism.[9] Free trade is desirable because it “enlarges the feasible consumption set for a community” (Winters, 1985, p. 56). It is now possible to obtain “commodity bundles which were out of reach under autarky” (Gandolfo, 1994, p. 54). Often, the case for free trade is phrased as the way that trade “allows one country to consume beyond its own ability to produce”, allowing a country to reach a higher community indifference curve. (Pugel, 2006, p. 38). It is treated as fact that there are net gains from free trade, “both for nations and the world” (p. 129). Pugel (2007) describes an ideal world as one in which private incentives are aligned perfectly with social benefits and costs, and incentives equalize at the margin. In this world of universal exchange,

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[7] Much of this has to do with economics understanding itself as a science. There would be little use in advocating an ‘alternative chemistry’ or ‘critical physics’ or ‘pluralist engineering’. If one sees, however, as I do, economics as a social science, one must complain that contemporary international trade theory, at least in its textbook representation, is one of the least reflexive contemporary social sciences. Just imagine a contemporary textbook in International Relations Theory that does not present different theories and explanations! This would be unacceptable as the core textbook for a graduate course. In fact, it would be the core purpose of the textbook to present different theoretical approaches

[8] A broad survey of textbooks is provided by Lucier (1992).

[9] Technically, protectionism is understood in economic theory as the use of measures such as tariffs and quotas to shelter domestic industries from global market prices. As will be seen, the scope of what counts as “protectionist” varies in textbooks. More narrative passages in textbooks often go beyond the narrow definition to include intervention in markets more generally.

> [f]ree trade allows the ‘invisible hand’ of market competition to reach globally. Private producers, reacting to the signal of the market price, expand production in each country to levels that are as good as possible for the world as a whole. Private consumers, also reacting to price signals, expand their purchases of products to levels that make the whole world as well off as possible (p. 186).

The primary objective of textbooks is to show students the “elegance and coherence of the pure theory of international trade” (Lucier, 1992, p. 165). The content and order of models is an established tradition, facilitating the “continuity of exposition” (p. 163): “The pure theory of international trade – from mercantilism through Smith, Ricardo, Mill, Haberler, Heckscher, Ohlin, and Samuelson – is the foundation of an international trade course. All of the textbooks deal with this body of material” (p. 165). Trade theory chapters usually provide summaries of the current state-of-the-art positive models that attempt to explain why countries trade and, less frequently, how empirical evidence favours some models over others (as a rule of thumb, more advanced textbooks have less empirical content).

The basic model in all textbooks is *traditional trade theory* – the comparative-advantage-based model with constant returns to scale in perfect competition. Introductory textbooks nearly always contain a similar narrative starting with Adam Smith’s theory of absolute advantage, followed by an exposition of Ricardian theories of comparative advantage, followed by chapters on – equally comparative-advantage-based – specific-factors models and factor-proportions models. Only then are assumptions gradually relaxed and other models of *modern trade theory* introduced. For instance, the effects of economies of scale are investigated or more recent theories and advances in international trade presented (gravity models; theories of the firm). Textbooks then usually proceed to deal with instruments of trade policy, evaluating tariffs, quotas, voluntary export restraints and other ‘distortions’ to trade such as non-tariff barriers in chapters that are sometimes called *applied trade theory*. From the 1980s onwards, textbooks have also included chapters on strategic trade policy. Many texts conclude by looking at the economic effects of certain instruments currently proliferating in the area of international trade law (dumping, countervailing measures, other ‘unfair’ trade practices), mostly assessing trade policies at the WTO. This applied part at the international level is particularly frequent in newer textbooks.[10]

All textbooks put forward trade policy recommendations in nearly identical manner, situated towards the end of chapters of *normative trade theory*, where the welfare effects of barriers to trade (tariffs etc.) are calculated. These policy recommendations are always based on a neoclassical narrative, citing the *static* efficiency effects of free trade.[11]

Tariffs and other restrictions on trade are regarded as interferences with the efficient allocation that a competitive price system would entail. Barriers to free trade are regarded as distortions of an otherwise desirable social choice mechanism that is better left alone. And while there are also non-neoclassical economic reasons that are efficiency arguments favouring free trade, the main arguments put forth in textbooks are those of the neoclassical static efficiency effects of trade only. Textbooks also mention dynamic arguments in favour of free trade, but only in passing and not as part of the neoclassical narrative. “Dynamic” refers to different positive spillover effects that could be the result of trade: increased competition, learning effects, adaptation of new technologies. What is true for the rhetoric of free trade advocacy has been described by Blaug (2007) as a more general feature of

[10] For a summary of changes in textbooks see Hoaas (1993).

[11] To ascribe the term *neoclassical* to contemporary economic practice is common practice, particularly within the literature of heterodox economic critiques (Doubush & Kappeller, 2012; Dow, 2000; Gruchy, 1987; Lavoie, 2006; Lee & Keen, 2004; Gerber & Steppacher, 2012; Garnett, Olsen & Starr, 2009; Harvey & Garnett, 2008; Foldvary, 1996; Backhouse, 2000). Neoclassical economics also represents the unprecedented unification of concepts and methods (marginalism, individualist methodology and the concept of utility) that would have been completely foreign to the classical economists. It is this unification of style, techniques and rhetoric that provided fertile ground for the *neoclassical vision.* It is somewhat a historical misnomer to ascribe the term *neoclassical* to contemporary economic practice. It would be more apt to call the underlying vision on trade policy the *Hicksian vision,* based on the development of the *new welfare economics* that started with John R. Hicks.

argumentation in *new welfare economics*. Blaug argues that it is "the *dynamic* performance of capitalism that is its major achievement and yet when we study welfare economics, it is always the *static efficiency* of the capitalist economy that is trumpeted aloud" (p. 22, my emphasis). Free markets in trade are praised for their static, not their dynamic, efficiency. In short, they are endorsed on neoclassical grounds. Free markets increase choice, and choice means more possibilities for increasing individual utility. Markets are the best vehicle to further the individual choices of everyone. The market is seen as the mechanism that allows free exchange, and hence efficiency, to optimize.

That trade *should* be free is the central conclusion of *normative trade theory*, not of positive trade theory. The exact mechanism through which recommendations (*normative theory*) are derived from descriptions of the world economy (*positive theory*) is, however, only rarely made explicit. As a sub-discipline of *normative economics*, it is *normative trade theory* that focuses on making "welfare judgments about policies and economic events" that are trade-related (Corden, 1984, p. 65), in which techniques of microeconomic analysis are used. The core argument in favour of trade is hence one rooted in microeconomic theory, but specifically in welfare analysis, stemming from John R. Hicks and the *Ordinalists*.

Rather than explaining why countries trade in the first place (the pattern of trade) as does *positive trade theory*, *normative trade theory* compares the welfare implications of trade policies and therefore specifically looks at gains from trade (Jones & Kenen, 1984). Devices of trade intervention (tariffs, quotas, subsidies, different kinds of regulation) are examined with regard to their direct effects on welfare in microeconomic models. Consequently, *normative trade theory* aims to arrive at policy recommendations taking into account the nature of trade under different assumptions. Zis (1988) says that the "pure theory is [...] subdivided into the positive analysis, which deals with relations between objectively defined variables, and the welfare analysis, which attempts to evaluate alternate situations" (p. 2). International economists are even more explicit on how their insights relate to policy. Corden (1984) tells us that the very *purpose* of normative economic trade theory is *prescriptive*, proclaiming that the "usefulness of normative trade theory depends then on the readiness with which governments take the advice of economists who are trained in, and apply, this body of theory" (p. 66). This body of theory is built on the *new welfare economics,* where microeconomic theory is used to evaluate economic policies, institutions and distributive allocations. The support for free trade is *neoclassical.*

Trade theory (*positive* and *normative*) is traditionally treated as a distinct branch of microeconomics – even though there are no distinct microeconomic techniques used when it comes to the analysis of the exchange of goods, services and factors across national borders. Hence, the underlying logic of a partial equilibrium analysis (effect of a tariff on price, demand and supply of a specific good) or of a general equilibrium analysis (effect on the economy in general) does not change whether we deal with trade within or across a nation. Partial or general equilibrium analyses can be used for applied welfare analysis.

A standard example of applied welfare analysis in textbooks is the very simple welfare analysis of a tariff and its impact on consumer, producer and government surplus. The concept of economic surplus in this form stems from the marginalist Alfred Marshall. Consumer surplus is now defined to signify the "increase in the economic well-being of consumers who are able to buy the product at a market price lower than the highest price that they are willing and able to pay for the product" (Pugel, 2006, p. 19). Welfare is understood as identical to economic surplus.

As tariffs are modelled as taxes on imported goods, standard microeconomic technique applies. This is an example of a microeconomic model applied to an issue of trade policy as is common in international economics textbooks. Either through graphical presentation or simple algebraic equations, it is shown that market equilibrium is, given specified conditions, economically efficient. The welfare analysis compares how consumer, producer and government surplus change under free trade and autarky respectively. The overall surplus under free trade is shown to be, in the standard case, greater than the overall surplus under autarky, modelled by the introduction of a tariff or some other form of trade restriction. Under free trade, the aggregate of consumer surplus together with producer surplus and government revenue (usually zero) is greater than under protectionism. Even when some agents are better off in terms of their surplus (e.g. there is more government revenue through a tariff), overall, it is argued that these restrictions on trade always result in *social deadweight* *loss*. This term describes the foregone opportunity benefits had there been free trade, due to irretrievable costs that result from inefficiency. If a policy recommendation is drawn from this analysis, it is effectively a cost-benefit analysis comparing the disaggregated welfare effects on different groups in the economy, giving equal weight to each of them and their willingness (and ability) to pay to fulfil their preferences. Without much explanation of the factual requirements that this model has to meet, policy recommendations are usually drawn from this simplest welfare analysis alone. In what follows, I will argue that the array of assumptions (*inter alia* about welfare) endorsed in textbooks are not just ethical assumptions, but betray a vision of the social and political good and the kinds of institutions that should further it.

2.1 Normative Trade Theory as Political Philosophy?

Neoclassical trade theory does not deal with broad macroeconomic aggregates. Since Alfred Marshall and the *historical* neoclassical economists, economics has been characterized by a methodological individualism that attempts to model economic behaviour with reductionist microfoundations. Microeconomic theories model economic relations with reference to the individual choices of consumers, producers, households, firms and governments (rather than looking at the economy in broad aggregates, e.g. employment, growth and inflation, as macroeconomics does). The welfare analysis in partial or general equilibrium makes a certain array of factual assumptions about economic agents. Rationality is assumed, in the sense that individuals elect to perform actions that best realize their respective desires, whatever they may be[12]. Another fundamental assumption is that the desires that economic agents hold are derived from self-interest, often pecuniary or material interest. Crucially, that preferences are assumed to be rational is an imputation made by neoclassical theorists that is not based on empirical investigation but chosen on theoretical grounds (arguably, the core motivation is to have a concept of preferences that can be easily manipulated mathematically). Hence, preferences to be satisfied are those that rational people *would* want. Hands (2012) writes:

> Most of the ‘given’ wants of economics are *posited* wants rather than *found* wants, and they are not just any-old posited wants. They are posited rational wants. They are wants embodied in well-behaved, complete and transitive preferences with sufficient structure to support the existence of an ordinal utility function defined over the entire choice space. So where do these posited restrictions come form? They involve rationality. The posited rational wants are motivated by our normative value judgments about what one “ought to do in order to be rational.” There is a reason that many elementary textbooks call the transitivity assumption “rationality” – it originates in our normative intuitions about the essential nature of rationality. This makes the rational choice foundations of welfare economics, and thus welfare economics, laden with normativity (p. 19, my emphasis).

Fundamental to the neoclassical story, furthermore, is an assumption of material scarcity as a permeating, structural background condition, accompanied by the non-satisfiability of individual preferences. Scarcity is part of any definition of economics, yet the neoclassical overemphasis on scarcity as shaping economic action is indicative of an underlying normative vision. Scarcity arises relative to an inadequate satisfaction of individual wants, or, put differently, scarcity is the difference between what exists and what people want. The fact of scarcity necessitates that humans make choices among competing ends. Praxeologists such as von Mises have argued that scarcity is action-guiding even without any human interrelations – humans must decide how to spend their time, effort and attention. Yet there are two aspects to the concept of scarcity: individual wants and naturally available resources. The *neoclassical vision*, by (generally) stressing the non-satisfiability of preferences, entails

[12] Neoclassical theory deals with economic agents who know best for themselves what they want and how they can achieve it. Wesley Mitchell once argued that any author’s conception of economics “must be based upon his [sic] conception of human nature, tacit or expressed, so long as his [sic] system of economic theory consists of reasoning about what people will do” (as cited in Dobb, 1975, p.38). This methodological individualism is the analytical reduction of human behaviour and activity to individual actions. In mainstream economic theory, economics is nearly agnostic as to the ethical content of the preferences. These are taken as completely exogenous.

that scarcity is structural: wants can never be fully satisfied. In the *neoclassical vision*, constrained choice applies not only to consumption of goods or decisions to invest or save, but to all human decisions. Neoclassical economics potentially sees "all of life as the application of economic calculation, as economizing behaviour" (Caporaso and Levine). It thereby "erases the distinction between the economy and the other spheres of social interaction" (p. 81). To a modern economist, this may seem common-sensical (Galbraith, 1958). But the centrality of scarcity and the emphasis on it has only existed in contemporary economics since Lionel Robbins. With it comes a view of resources as being "structurally inadequate". Individuals are restless, can never have what they want, always want more. This is a fundamental assumption concerning which very little normative work has been done recently (an exception is Zaman, 2010). [13]

It is not the case that these conditions (rationality, scarcity, preference satisfaction and others that will be introduced later) cannot be relaxed. But policy recommendations that are put forward in textbooks rely on only these, rather than on alternative assumptions. Why is this the case?

One answer is offered by Broome (2009), who argues that welfare economics is "badly neglected" within the profession. It is "little taught, and many economists know almost nothing of it" (p. 2). There is a large body of literature within modern welfare economics and social choice theory that deals specifically with questions like these: What is economic welfare? Which efficiency criteria are to be used? How should individual utilities be aggregated and social welfare functions created? And even though answers to these questions are preconditions for making meaningful policy recommendations in economics, alternative conceptions of welfare are never mentioned in textbooks. In fact, it is the very misnomer of the discipline of '*welfare' economics* that is telling. Debates about values in economics and desirable visions for the economy cannot be adequately summarized by the term *welfare*. Yet this is what the sub-discipline has been exclusively focusing on. Implicitly, by restricting the scope of *welfare* in this way, trade theorists endorse a consequentialist view of ethics (where the effects of an action are the sole relevant criterion for evaluating an action as right or wrong). Textbooks rarely, if ever, provide references that would challenge its welfare economic foundations. I could not find a single reference in all the textbooks surveyed which would challenge neoclassical microeconomics or welfare economics itself. The term *normative trade theory* is hence today restricted to this narrow approach.

In the *neoclassical vision* expressed by normative trade theory, all there is to know about welfare is the individual satisfaction of preferences. Later, I will revisit the two different criteria for efficiency that are commonly used to judge the satisfaction of preferences in society: Pareto efficiency (for which distribution of real income is to some extent irrelevant) and Kaldor-Hicks efficiency (which is ultimately evaluated through a hypothetical cost-benefit analysis of willingness and ability to pay). Both rely on the preference satisfaction theory, of which Broome said that it is an "ethical theory, like any other theory of wellbeing" (p. 3). Preference satisfaction theory may be an ethical theory in that it makes a claim about what is good for individuals. Yet it also expresses views on political philosophy when it is endorsed alongside a strong commitment to efficiency at a societal level. Certain social and political institutions are endorsed over others, and principles for adjudicating desirable and undesirable institutions are implicit in the exposition.

2.2 The Role of Welfare as Preference Satisfaction

Textbooks vary with respect to how much they explore the economic welfare foundations of their policy recommendations. Sometimes, citations of the welfare economics literature are given, but seldom is it argued that the welfare economic foundations can be and have been subject to philosophical debate.[14] *Normative trade theory* is built upon a very specific theory of wellbeing as

[13] In a survey of principles of economics textbooks, Hoaas (1993) finds that the scarcity definition of economics in fact only enters the mainstream in the 1940s. The first textbook employing the scarcity definition was Bowman and Bach (1943), claiming that the "central economic problem of any society" is the problem of "economizing scarce resources in order to produce the various good ultimately desired by consumers." (p. 11) (as cited in Hoaas).

[14] Arrow, Sen & Suzumura (2002) argue in their "Handbook of Social Choice and Welfare" that the debate on the theoretical foundations of welfare economics is inconclusive. Social choice theory itself is already "deeply rooted in the

well as a specific view of social aggregation.[15] This is apparent if one analyses the reasons why politicians should follow policy recommendations drawn from the cost-benefit analysis explained above. Welfare, in the neoclassical argument, is defined only and exclusively as the satisfaction of preferences. Conventional welfare economics regards an economic state of affairs as desirable only insofar as it contributes to the satisfaction of preferences. Income, then, is used as a proxy for the possibility of attaining preference-satisfaction. The strong link between preference satisfaction, efficiency, and desirability is merely brushed over in textbooks.[16]

One central charge I am making against *normative trade theory* as presented in mainstream textbooks is that it does not ask what economic *welfare* actually is, and why trade policy makers ought to act upon one specific (normative, historically contingent) conception of economic welfare rather than another. The welfare economic foundations are often hastily described, as in, for example, one of the field's foundational texts, where it is noted that the analysis of wealth and welfare is "*individualistic* in the sense that national welfare depends, in *some* sense, on individual utilities" (Corden, 1984, p. 66, my emphasis). While many microeconomics textbooks (such as Gravelle & Rees, 2004) do mention the welfare assumptions upon which microeconomic models are built, there is, to my knowledge, no trade textbook in which academic debates in social choice theory (or other normative fields) are discussed directly. Representative of this simplistic approach is this quote from Zis (1990): "[…] economic theory does not, by definition, provide a guide to a *fair* distribution of resources" (p. 276). In this sense, the mainstream account ignores its substantive normative premises, motivation and history.

2.3. Comparative Advantage – the Crucial Concept

The principle of comparative advantage is the centrepiece of support for free trade in international trade textbooks and is always referred to in public interventions by international economists. Indeed it has been called the "essential theoretical case for free trade" (Bhagwati, 1996, p. 231). Paul Samuelson was once asked by mathematician Stanislaw Ulam to name one proposition in the social sciences that was both true and non-trivial. Samuelson (1969) responded by citing the principle of comparative advantage:

> That it is *logically true* need not be argued before a mathematician; that it is *not trivial* is attested by the thousands of important and intelligent men who have never been able to *grasp* the doctrine for themselves or to *believe* it after it was explained to them (p. 1).

(Contd.) philosophical approach of welfarist-consequentialism in that [it is] based on the assessment of the goodness of states of affairs in terms of individual utilities obtained from these states of affairs" (Suzumura in Arrow et al, p. 23). Even the more specialized debate is held captive by a specific ethical outlook on economics.

[15] With this I mean the understanding of how individuals make up society (individual welfare is readily combined to equal social welfare). Driskill (2012) notes that neoclassical economists make these normative claims more often and more persistently than economists in other sub-disciplines, such as for instance in social policy. As an example, see Grubel (1981), who says that "we can interpret any move to a higher community indifference curve as an unambiguous gain in welfare" (p. 37).

[16] It bears repeating that the contemporary understanding of welfare-purely-as-preference-satisfaction is a historical oddity. The *historical* neoclassical economists are on this account much less dogmatic than their contemporary neoclassical interpreters since Hicks. The story that is underappreciated is the following: today's economists – who are called and call themselves neoclassical – have rhetorically eliminated the normative aspects of their forbearers in order to construct a foundation myth of a context-free discipline. Contrary to this, Alfred Marshall himself argued that utility – understood as want satisfaction – is only part of economics, and that the more important feature of the economy is to contribute to what he calls *individual character formation*. Leon Walras, the founder of general equilibrium theory, endorsed free markets due to a conception of *commutative justice*. The idea that market transactions lead to desirable social outcomes was prior to the formal analysis. Most strikingly, it was John Bates Clark who provided a theory of marginal productivity that is both descriptive *and* normative: Clark says that it is *just* that individual marginal contribution determines wages and openly puts forward a theory of *just market deserts*. Normative concerns pervade economic doctrines. Today's neoclassicals pretend this isn‘t so.

Here we have two aspects of the principle of comparative advantage that I want to highlight in the following sections. The first is the rhetoric employed. The principle is a matter of truth ("logically true") that can be "grasped". The second is the question of the advocated scope of its applicability. Arguably, what intelligent critics of the principle put forward is not a critique of the logical consistency of the *doctrine*, but rather scepticism about whether this simple model should be grounds for free trade, or whether it leaves out or misrepresents relevant facts about socio-economic life and under which conditions strict adherence to it may be unjust.

Textbooks today present a linear narrative of the development of the principle of comparative advantage. They reduce Adam Smith's panoptic study of international trade to an allegedly erroneous case for free trade based on "absolute advantage" (Maneschi, 1998; Schumacher, 2012).[17] This is the explanation of the causes of and gains from international trade based on the fact of one country being absolutely more productive in the creation of one good as compared to another country's productivity. The narrative then finds its conclusion and solution with David Ricardo, who is mentioned as the saviour of the principle, rectifying and formalizing the doctrine and establishing the case for free trade. With Ricardo, what is stressed is not absolute productivity advantage, but relative productivity advantage. The principle states that differences in national productivity give rise to gains from trade for all nations that liberalize. A nation need not be absolutely more productive in one good but only relatively so. Hence, every nation has a comparative advantage by definition. Any trade between two nations is preferable to autarky.

Just by virtue of being different, every country has a comparative advantage. By definition, trade is beneficial. This is the response to the mercantilist: international trade is not a zero-sum game, it's a variable sum undertaking – everyone may be a winner. In textbooks, gains from trade are obtained by managing opportunity costs. A nation wants to export goods and services it can produce at low opportunity cost, and import what it produces at high opportunity cost. Comparative advantage is powerful, because as long as there is at least one partner and two different goods or activities there is – whether in international trade or personal affairs – a comparative advantage in the production of one good or the pursuit of one activity. This represents a view of the world that focuses on the management of opportunity costs as the quintessential normative principle of economic policy. Models of trade are of course described in a more complex fashion in textbooks, but central policy justifications are essentially derived from David Ricardo's basic idea. For example, factor-proportions models such as Heckscher-Ohlin argue that gains are to be found in the relative difference of endowments. Textbooks may present many different theories of the causes of trade and the gains from trade – but when it comes to policy recommendations, it is always Ricardo's comparative advantage model that is invoked.[18]

The result that any trade is better than no trade aligns well with views that endorse institutions that allow or even promote voluntary exchanges.[19] Voluntary economic transactions would not take

[17] Even John R. Hicks (1975) noted that Adam Smith's dynamic conception of wealth is lost on his followers (p. 312). Grubel (1981) is an example for (mis)representing classical economists in the light of the neoclassical vision: Citing Smith and Ricardo's analyses of competition he says that "the baker who tries to earn a profit [will bake at the cheapest price possible] the quality product the public wants at the cheapest price possible, in competition with other bakers". International economics is apparently about how "selfish pursuit of the profit motive by international traders buying at low and selling at high prices increases world welfare" (p. 12). Insights about trade are placed in a linear tradition stemming from Smith to Ricardo and are presented within a normative framework in which selfish pursuit of economic action benefits society as a whole.

[18] I am leaving out here increasing returns models of international trade, which commonly have fewer distributional consequences (Krugman, 2007; Pugel 2007). Increasing returns models argue that intra-industry trade is caused by economies of scale – inconsistent with the assumption of perfect competition in conventional comparative advantage models (e.g. the work of Helpman, 1981 & Dixit-Norman, 1980). If trade is based on increasing returns, then trade policy in fact does not have to deal with (as many) conflicts of interests. Trade policy would be a rare field of pure Pareto improvements and trade liberalization easy to justify.

[19] Von Mises and Rothbard and their praxeological theories, for example, regard human actions as prima facie purposeful and rational. *Acting* means striving to exchange a worse state of affairs for a better one. This gives action itself a

place unless both parties are better off by making these exchanges than by not making them. The fact that, by focusing on relative advantage in productivity, every nation has a comparative advantage by definition yields astounding conclusions. Most crucially, individual losers from economic activity do not exist. The core of the essential theoretical case for free trade operates at the level of the nation. In this and in many other respects, Ricardo's principle of comparative advantage can be regarded as the Archimedean point of microeconomic trade policy thinking. [20]

Let us investigate some of the core premises of the principle and the way it is explained in textbooks. Usually, the Ricardian model is explained using a 2x2 analysis (consisting of two goods and two countries), where labour is held to be perfectly mobile and where a presumption of constant returns to scale and perfect competition obtains. [21] For Bhagwati, comparative advantage is "a highly simplified model which was intended to be, and served as, an eminently successful instrument for *demonstrating* the welfare proposition that trade is beneficial" rather than "a serious attempt at *isolating* the crucial variables which can be used to 'explain' the pattern of trade" (Bhagwati, 1964, p. 4, as cited in Gandolfo, 1994, p. 23).

2.4. An Efficiency Criterion to Suit the Vision

Contemporary economics, the study of the allocation of scarce resources among competing ends, is – in this neoclassical definition at least – about efficiency. In particular, it is the concept of Pareto efficiency that is central to contemporary welfare economics. A point is Pareto-efficient when it is impossible to make one person better off without simultaneously making another person worse off. Pareto-inefficiency requires that there is "an unexploited possibility of an unambiguous welfare improvement" (Corden, 1984, p. 67). The literature on social choice theory has shown, however, that there is more than just one definition of efficiency. The choice of one efficiency criterion over another is a non-neutral choice that might not only contradict certain moral theories (Sen, 1970) but is also indicative of an underlying stance on distributive justice specifically, and political philosophy more generally. This claim can be corroborated by Buchanan (1984), for whom

> the rather unreflective popularity of the Paretian concept of efficiency is due either to the failure of its adherents to recognize that the Principle of Utility, for which they view the Paretian Principles as a substitute, is not morally neutral, or to their tacit skepticism about the possibility of gaining a consensus on moral theory, or to the mistaken belief that morality and efficiency cannot conflict, or to the equally mistaken belief that the Paretian principles are principles of rationality [...or…] they assume that Utilitarianism is the correct moral theory. But this assumption […] is also dubious (p. 13).

There has been a significant development in economic trade theory in the last century. Free trade has always been regarded as economically efficient, but the efficiency criterion invoked has changed. This has happened within the core of microeconomic trade theory – i.e. within the models of comparative advantage surveyed above. Textbooks of international trade usually present the reader with the development of these trade models: from Smith to Ricardo, then to Heckscher-Ohlin and to modern trade theories. In Ricardian trade theory, trade is Pareto efficient at the level of the nation state (every

(Contd.) deontological quality: actions are intrinsically good, or at least aimed at betterment. To praxeologists, the social world can be entirely explained by, and reduced to, actions. Increased choice is always desirable by definition.

[20] Even this simplest 2x2 model of two goods and two countries might not be historically true to Ricardo, as Maneschi (2008) argues, stressing that Ricardo would talk about increasing profit rates from trade as additional welfare benefits accrue dynamically. What is presented as the *static* case by textbooks today was itself really a *dynamic* one. Due to methodological strictures, even good arguments in favour of free trade fall by the wayside.

[21] Even for the simple Ricardian analysis, astounding simplifications need to be made in order to make the model work. Even the simplest change to the premises has an impact on the welfare effects of trade. Of course, the international trade theory literature has studied the effects of partial relaxation of all these factors for trade. Economists are well aware of this, as Krugman notes: "[E]conomists are familiar with a number of reasons why the gains from free trade may not work out quite as easily as in the simplest Ricardian model. External economies may mean underinvestment in import-competing sectors; imperfect competition may lead to a strategic competition over industry rents; because of distortions in domestic labour markets, imports may reduce wages or cause unemployment; and so on" (Krugman, 1998, p. 2).

country gains from trade liberalization). In Heckscher-Ohlin trade theory and in the Stolper-Samuelson theorem in particular, this is not the case anymore. The Stolper-Samuelson theorem analyzes the effect of relative price changes of goods in the world economy due to trade and their effects on factor remuneration (e.g. wages).[22] Here, there are distributive effects within the country, as factors of production are assumed to be partially immobile. Trade occurs as countries attempt to specialize. This means that the composition of national output changes, entailing that labour moves from less lucrative occupations in one industry to more lucrative ones. If trade occurs, those groups that are not involved in producing the good that the country specializes in may lose out absolutely (not only relatively). Yet, winners from trade in Heckscher-Ohlin models *could* compensate the losers within a country, making everyone hypothetically better off.[23] This means that free trade is Kaldor-Hicks efficient – but not Pareto efficient. By allowing for the possibility of incomplete factor mobility (i.e. labour not being able to move from one industry to another without friction), there are losers from trade.

The move from Ricardo to Heckscher-Ohlin is a normative "game-changer", even though the label "efficient" is used for both of them. It leads supporters of trade liberalization to make a wholly different moral argument in the face of the distributive effects of trade liberalization.[24] This change of the efficiency criterion for evaluating trade, however, is conveniently glossed over in the textbooks, and only peripherally mentioned. Some critics have pointed out the controversial implicit normative commitments that neoclassical theory supports when endorsing Kaldor-Hicks as an efficiency criterion.[25] Endorsing Kaldor-Hicks expresses views about what counts as permissible and compensable economic harm brought about by economic policy (DeMartino, 2014). More broadly, an endorsement of Kaldor-Hicks implies a philosophical stance on how to treat those disadvantaged by trade liberalization and, fundamentally, what individuals deserve to receive in a market economy. This view is corroborated by looking back at the original articles by Kaldor and Hicks.

In 1941, John R. Hicks devised the criterion as

> a perfectly *objective* test which enables us to discriminate between those reorganisations which improve productive efficiency and those which do not. If A is made so much better off by the change that he could compensate B for his loss, and still have something left over, then the reorganisation is an unequivocal improvement (p. 111, my emphasis).

[22] Traditionally, it has been assumed in works of international economics that all factors of production are perfectly mobile in the long term. When trade liberalization leads to a convergence of relative prices across nations, in the long term factors will adapt to new economic conditions. Scholars of the political economy of trade have been rather more interested in the short run, however, inquiring into the kinds of political divisions that are to be expected with regard to trade policy depending on degrees of factor mobility in the domestic economy (e.g. Rogowski, 1989).

[23] Practical problems with achieving these actual Pareto improvements include: the (political) cost of maintaining programmes of compensation and the identification of who precisely is affected. Autarky, in the case that no lump-sum compensation is feasible, might be preferable to free international markets (Rodrik, 1997; Brecher & Choudhri, 1994).

[24] It is not claimed here that losers from liberalization generally have a claim to compensation. A normative countervision would need to specify under which condition individuals are disadvantaged from trade liberalization in order to state what expectations of socio-economic share outs they may legitimately have. This article proceeds without such a specification. For now, it may suffice to note that textbooks make normative arguments about the legitimacy of the claims of very different types of losers (e.g. those who are relative/absolute losers compared with the gains of their peers in a competitive market economy vs. those who lose out from a one-off policy change vs. those who are losers compared to living in a different counterfactual policy regime). Even without such a specification, attention to "losers from trade" may be warranted because of a general concern with the worst-off in any economy. This concern might be even more relevant if it were found that losing in the economy, as is likely, is serially correlated (DeMartino, 2014).

[25] Kaldor and Hicks wanted to retain the ability of economics to judge policy changes and call them efficient. For this, they devised a "compensation test" that claimed that an economic policy change may be efficient if it is possible that the winners could potentially compensate the losers. This criterion is much less strict than Pareto: But the justification for *why* a change is efficient has changed. Now, a policy, for example trade liberalization, can be "efficient" – based on the potential compensation of losers from trade alone (only comparing the willingness-to-pay of losers and winners in terms of monetary values.)

That Hicks called this test *objective* should astound us. Hicks wanted to retain the ability of economics to judge policy changes and call them efficient. Going back to the original formulations of the criterion, it is remarkable to see that the test should apply for policy changes (e.g. trade liberalization), but also that the purpose of economic policy *in general* is to perform these changes. The case for free trade becomes the case for trade liberalization.

Sometimes, the recommendations on how to treat the distributive effects of trade rely on what Corden (1984) once called a *Hicksian optimism*. The argument can be summarized in the following recommendation: 'Just allow trade liberalization, worry about redistribution later (if at all). Think about net gains for the economy and not individual entities. At some point, even the losers will be better off!'.

Winters (1985) acknowledges in his textbook the costs of liberalization:

> The success of trade liberalization depends on resources being able to move between industries according to comparative advantage, and this requires both mobility and wage flexibility [...] This does not weaken the long-run case for freer trade, [...] it merely recognizes that adjustment costs can be high and that choosing the 'right' time for adjustment can be beneficial (p. 109).

Over time, short-term losers will supposedly be long-term beneficiaries from trade – as if individuals lived forever, eternally moving from contracting to expanding industries. And the bigger the economic entity we are looking at, the easier it becomes to see the overall net gains that outweigh individual losses. However, the terms of the debate have changed – instead of unambiguous national welfare gains, trade theory now only considers national net welfare gains when endorsing Kaldor-Hicks criteria. Much of the libertarian trickle-down optimism derives from stipulations by Kuznets (1955) that inequality is only a temporary phenomenon in the process of development – a similar premise can be seen in the *neoclassical vision*. Often, the *non sequitur* is drawn from this that inequality problems simply solve themselves without any government intervention.

On *Hicksian optimism*, Samuelson is cited (in Kiesling, 1992):

> Even if for each single change it is hard to know in advance who will be helped and who will be hurt, in the absence of known 'bias' in the whole sequence of changes, there is some vague presumption that a hazy version of the law of large numbers will obtain: so as the number of quasi-independent events becomes larger and larger, the chances improve that any random person will be on balance benefited by a social compact that lets events take place that push out society's utility possibility frontier, even though any one of the events may push some people along the new frontier in a direction less favorable than the status quo (p. 23).

Samuelson meant to describe the situation in the 1930s, but the time-bound optimism he displayed still reigns over neoclassical economics today. What commitments are made with this *Hicksian optimism*?

In his authoritative handbook on *normative trade theory*, Corden (1984) says that "[t]he usual approach in normative trade theory" is simply (1) to *assume* that redistribution does take place – i.e. that there is an independent income distribution policy which achieves the appropriate or best distribution [...], and (2) to use the Pareto-efficiency criterion (p. 66). Furthermore, he claims that "if Pareto-efficient policies […] are being pursued consistently over a long period, the *chances* are that eventually – though not at every particular step – everyone will be better off" (p. 68). Corden, implies here that redistribution is not necessary, because in the end it all evens out – we simply do not have to worry about policies of redistribution. Corden then introduces trade models with distributive effects and the Kaldor-Hicks criterion for efficiency is automatically adopted.[26] Potential (and not actual)

[26] A crude representation of this is if person A is given $3000 while someone takes away $1000 from person B, then social welfare has increased by $2000. It does not require much to see that B may feel unfairly treated. Yet this is an efficient reallocation of resources under the provision that it enables the gainers to net-compensate the losers, whether or not they then actually do so.

compensation is hence the foundation for justifying trade policy. This is pure optimism. The case for choosing one efficiency criterion over the other is insufficiently argued.

A free trade policy, compared to a policy of autarky or restricted trade, does in fact satisfy the Kaldor-Hicks criterion – but it only does this in a hypothetical, not an actual way. In the textbooks, this *Hicksian optimism* is adopted without ever clarifying this assumption. Krugman and Obstfeld (2009) in their textbook argue that we ought to ask the following question: "Could those who gain from trade compensate those who lose, and still be better off themselves?" They argue that "[if this is] so, then trade is a source of potential gain for everyone" (p. 72). Yet I have not seen a single textbook in which there is an actual attempt to see whether the losers are actually compensated or not – and whether and in what way this undermines the case for free trade. Since Hicks, this argument has sometimes been referred to as the *compensationist* argument.

Mandler (1999) says:

> In the compensationist vision, economic science should bracket ethical questions and rank economic arrangements solely on the basis of their efficiency. Politicians and philosophers, in their corner, would debate the principles of distributive justice and decide which of the most efficient allocations should be instituted (p. 141).

Yet, in a textbook, Grubel (1981) writes that "[w]e adopted the assumption that political bargaining processes work sufficiently well to ensure that the interests of losers are protected and policies are undertaken only if gainers are made better off after they have compensated the losers" (p. 38). Political bargaining processes are assumed to work things out in the end. Other textbooks advise against actual compensation schemes (even though endorsing Kaldor-Hicks) because "economic progress could easily end up snarled in red tape" (Krugman and Obstfeld, as quoted in Driskill, 2012, p.11). The only textbook that does not conform to this is Pugel (2007):

> Because the capital losses of owners and workers in these situations are caused by deliberate and unavoidable government actions, in the name of overall public welfare economists believe that it is appropriate that the general public, through the government, pay compensation to those who lose from the tariff reduction (p. 174).

Pugel talks about adjustment programmes as "useful," and urges "compassion for the workers who lose their jobs in the process" (ibid.)

One rare and early critique has been put forward by Hahn (1998). He argues that the old political economy mantra is true: the reason for most political economy opposition against free trade is that economic losses are concentrated and gains are dispersed. But he says that it is also true that there are significant losses that are dispersed, which are subtle and hard to quantify, such as greater job insecurity and income risks (when labour transitions to comparative advantage) which are difficult to insure against. He concludes that free trade requires redistribution in the classic case. First, there is a need to "identify[...] the losers, whether of the temporary or permanent kind". This "is a first step to reducing their losses" (p. 21).

Claiming that free trade in the Heckscher-Ohlin model (with imperfect labour mobility) is still *efficient* is a normative argument contributing to debates about compensation and redistribution in society. In most textbooks, this is not regarded as an issue worthy of further justification – the debate usually stops at outlining the Kaldor-Hicks criterion of efficiency.[27] The problem is that Kaldor-Hicks

[27] Rider (1982) argues that trade theorists defend free trade policy religiously: "Although usually presented as a conclusion deriving from the analysis, it is in fact the frame of reference for international trade theory. That is, it is the "ideal" and any deviations are regarded as inefficient. This value judgment hamstrings any practical policy advice: the only recommendation compatible with this assumption is a policy of *inaction*, and to leave the market to get on with it" (p. 595)

separates the evaluation of *efficiency* from the actually performed redistribution and compensation taking place.[28]

3.1 Do As I Told You – Normativity and Policy Recommendations

In his best-selling "Principles of Economics" textbook, Mankiw (2007) writes that the concept of *efficiency* is neutral. This is the mainstream view on the issue, also in trade theory: "Whereas *efficiency is an objective goal that can be judged on strictly positive grounds*, equity involves normative judgments that go beyond economics and enter into the realm of political philosophy" (p. 148, my emphasis).[29] Yet Pareto efficiency is not neutral, but a normative criterion, particularly when it is linked to policy recommendations (and not just presented as an 'aesthetic concept' which the economist studies due to its intrinsic significance). The judgment that we ought to have a Pareto efficient distribution is value laden. Mongin (2006) argues similarly when claiming that efficiency in economics today is an evaluative concept, and that evaluative concepts 'trigger' prescriptions. Claiming that x is a *good* policy necessitates that policy x ought to be undertaken and that another policy y, which does not live up to the standard of policy x, ought not to be undertaken. Mongin roots this argument in a meta-ethical view by "Husserl, Hare and many others, that [...] I cannot declare an action X to be morally best without implying that one should do X under the proviso that X is feasible" (p. 11). Saying, as normative trade theorists do, that policy x is better than policy y entails prescription, which is normative. Mongin, felicitously, sums this view up in the phrase: "Evaluations semantically entail prescriptions" (p. 12).[30]

But, granted that Pareto is not *neutral*, is Pareto efficiency a *good* normative standard? Pareto efficiency *alone* is a poor normative standard for evaluating economic policy for two main reasons. First, Pareto efficiency may be too imprecise to be relevant for economic policy because there are too many conceivable Pareto efficient states of affairs. Distributions can be crassly unequal, yet satisfy the Pareto criterion. Second, Pareto inefficient situations may be morally preferable to efficient ones: slavery may be economically efficient, yet immoral. Sen (1987) stressed the limited way in which Pareto efficiency is a criterion for assessing social achievement (p. 33).

While Pareto efficiency by itself is a poor criterion, something may be said for Pareto efficiency to be *a* consideration in giving policy advice. A Pareto efficient distribution is attractive to economists because it takes seriously the preferences of individuals as voiced by *themselves*. Hennipman (1992) calls it the "naturally enticing and well-defined objective" (p. 435). It allegedly does not require any imputation of preferences on the group but takes just those orderings that individuals give the economist.[31] Pareto as a criterion for "assessing social achievements" is then attractive because, allegedly, it only derives from the subjective preferences of individual economic agents and does not require an omniscient social planner. Another reason why Pareto might be, at first sight, a very attractive way of assessing social achievements, is due to its limited aspirations. Pareto does not judge the desirability of one state of affairs against all other counterfactual and imaginable states of affairs but rather takes existing distributions as given. This means that it is a standard that is

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[28] How is a defence of free trade compatible with the possibility of individual human beings losing out? Unfortunately, this dilemma has not been reflected in the intellectual history of trade. Seminal works by Viner (1991), Irwin (1996), Sally (1998) and Lal (2006), while thorough on the economic history of distributive effects, do not inquire into the conditions under which distributive effects resulting from trade may be morally problematic, particularly for liberal political philosophy. Too often, resistance to free trade arguments on moral grounds is mistaken for naïve protectionism. Too easily, economic liberalism is equated with political liberalism.

[29] In the 6th edition of 2012, however, this and some similar passages are missing. It is now granted that economics alone "cannot determine the best way to balance the goals of efficiency and equity. This issue involves political philosophy as well as economics." (p. 252). See also Mankiw (2014).

[30] Mongin makes his point concerning an investigation of "poverty", but his analysis also applies to the topics of interest here.

[31] Of course, this is not strictly true as seen from my discussion on the theory of preference satisfaction: the ordering is given according to the principle of the agents' rationality, which is itself an assumption that is imputed on ideal economic agents by the neoclassical economists!

applicable 'here and now'. If we have to fundamentally quarrel with the current distribution, this limited view of what social improvements would mean is attractive precisely due to its partial ranking of alternatives.

Here, I do not wish to go too deeply into the question of whether economics is or can be a value-free science. The view of a value-free economics is often formulated by those authors who separate economics into its positive and normative branches (which is true for all trade theorists).[32] For Winters (1985), for instance, "The former deals with how the world is, the latter with how it ought to be." (p. 5). Other textbook authors argue that although "these aspects are strictly intertwined in our discipline, they are usually presented separately for didactic convenience" (Gandolfo, 1994, p. 4). Here, I do not attempt to answer the question whether value judgments can be part of the discipline of economics, or whether positive and normative approaches are reconcilable. These are questions that others have dealt with, for instance accounts that attempt to "reform" economics from within, arguing that economic science can incorporate values (Sen, 1977; 1987). Rather, I argue that *normative trade theory*, in its current form, has such a strong underlying normative vision and that it is important to make the normative assumptions underlying the vision *explicit*.[33]

Pareto efficiency, as Blaug (1987) notes, involves ethical considerations and is normative in the sense of offering statements of desirable states of affairs via persuasion. Blaug highlights three ways in which he sees Pareto optimality as relying on "judgments of values." These are: first, the assumption that every individual is the best judge of his own welfare (consumer sovereignty); second, the view that social welfare is defined only in terms of the welfare of individuals (individualism in social choice); and third, the view that the welfare of individuals may not be compared (unanimity) (p. 626).

Blaug (1995) argues that, together with the endorsement of the fundamental theorems of welfare economics, new welfare economists regarded "efficiency" as value-neutral, and "equity" as value-laden (pp. 636). For him, the terms "efficient" and "inefficient" are normative and could not be separated from value judgment. Hennipman (1992) disputes that welfare economics favours efficiency over other social objectives. In replying to Blaug, he maintains that economists do not attach ethical meaning to efficiency. Hennipman argues that this would be "dangerous", because

> while one may regard efficiency in many cases as meritorious, it is not always true that efficiency is 'more desirable' than inefficiency. In general its moral value obviously depends on the ends, means and ways of action. One may very well prefer an inefficient to an efficient Gestapo. (p. 422)

For Hennipman, Paretian welfare economics is scientific and positive. But I would argue against this that it is precisely *welfare economics* that knows no deontology, that the *neoclassical vision* is completely blind to the morality (the content) of agents' preferences. It is exactly this unencumbered

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[32] See for instance the comprehensive debate in Putnam & Walsh (2011, pp. 230) in which the positive/normative dichotomy is challenged, arguing that facts and values are always entangled in more complicated ways than mainstream economics pretends. For Putnam and Walsh, factual inquiry cannot isolate itself from moral reasoning (and vice-versa). See also critics of purely positive economics: Walsh (1987, 1994, 1996, 2000). To those economists who believe that economics is devoid of ethics, Broome (forthcoming) replies that while macroeconomics may rightfully claim this to some extent (it deals with broad aggregates, eliding conflicting interests), microeconomics functions against a background of conflicting interests between different agents in the economy. Broome argues that due to this conflict of interest, value judgements must necessarily be undertaken between different individuals such that normative statements in microeconomics are ethical. Even more important, I would argue, is a statement by Mongin that clarifies the evaluative character of economics in a magisterial way. Mongin writes, asking whether predicates of economics are evaluative or not, that there are clear occurrences of the 'evaluative good' in economics. Yet, Mongin does not agree that economists talk about the same things as ethicists, saying that "economists concentrate on just a few aspects of what is good or bad in a thing or a state of affairs. They typically indicate the restriction by saying "economic such-and-such" (in early welfare economics) or "social such-and-such" (in social choice theory and later welfare economics)" (p. 13). I argue that in trade theory economists do not precisely restrict their ambitions in such a way.

[33] This may proceed without presenting a normative countervision that could guide economic policy considerations more generally. I believe that a Rawlsian account of markets poses the best answer to the failings of the neoclassical vision described here.

approach to policy recommendations that allows efficiency to be prioritized over other social ends that are equally or more meritorious. Not only is efficiency all that is ever talked about; as will be seen later, textbook accounts *moralize* efficiency. And when Kaldor-Hicks is added to this, economists start to compare winners and losers and justify policy by *net gains*, thereby making decisions about the kind of society we should live in.[34]

Whether or not we agree with Blaug (that Pareto efficiency relies on value judgments) or with Hennipman (that welfare can be studied by positive sciences), the relevant test is arguably what economists actually *do* with their analysis. The minute efficiency analysis is the source of policy recommendations is the minute a specific view on justice is endorsed. This view must be made explicit. All textbooks engage in policy recommendations, some with more radical free trade agendas than others. This is the core of *normative trade theory* and not just a disinterested scientific debate open to different conclusions. Briefly stressing another historical continuity, I want to highlight a quote from Scitovsky (an ordinalist working on the new welfare economics), who is quoted in the "Critique of Welfare Economics" by Little (1957):

> [I]t is not enough to declare the desirability of free trade and trust that enlightenment will bring it about; nor is it enough to create initial conditions favorable to it; *it must be imposed and enforced* [...] We [economists] can only tell that some form of compulsion is necessary to ensure free trade (Scitovsky, as quoted in Little, p. 255, my emphasis).[35]

Normative trade theory itself remains undecided about its normativity in the rare cases these questions are addressed. Mankiw (2008a), for instance, has recently publicly declared in a dispute on his blog that:

> Any normative statement goes beyond sheer economics and involves a degree of political philosophy. Economists' devotion to free trade is based not only on the positive conclusion that it leads to a bigger economic pie but also on a couple of related philosophical positions. (p. 2)

Yet, only three paragraphs later, Mankiw again puts forward a claim for the value-neutrality of economics: "The fact that some people lose when trade is opened up has no philosophical significance. (Whether it has political significance is another matter)".[36] This shows the paradoxical nature of the status of efficiency in trade theory.[37]

To sum up: the choice of efficiency introduces exactly the kind of normative argument into the debate that normative trade theorists profess to exclude. Whether on purpose or not, trade theorists commit to value judgments when they address the problem of efficiency while talking about policy.

[34] Blaug (1993) argues: "To call Paretian welfare economics positive economics suggests that ethics, morality and philosophy have nothing whatever to do with an economist's pronouncements in favour of, say, competition and free trade. Economics is a science and stands alone without assistance from these other disciplines. Such arrogance has long kept economics divorced from sociology and politics, not to mention law and public administration. Economics is in good part a policy science and a policy science which professes to reach significant conclusions about policy issues without ever invoking a single value judgment practicing deception." (pp. 128-9). I argue that by engaging in policy, economic theory turns into political philosophy – which is precisely what occurs in the textbooks.

[35] Little's critique used the approach that logical positivists use to argue that welfare economics cannot possibly arrive at objective criteria for *just* economic states of affairs. Yet his critique is too tame, as he merely provides a light critique of the language and emotive nature of the arguments brought forward.

[36] Note that the author of the best-selling and most-read textbook in economics today has been writing on matters of political philosophy. See Mankiw (2010), where a normative theory of just deserts is explicitly defended. Here, he writes that "[p]eople should get what they deserve. A person who contributes more to society deserves a higher income that reflects those greater contributions". For Mankiw, inequality in an ideal capitalist society is efficient and therefore just. In another essay entitled "Defending the one percent", Mankiw (2013) argues that redistribution means taking away the fruits of one's labour and is hence immoral. Again, he writes that earnings should correspond to marginal productivity and hence to social contribution. Nowhere does Mankiw argue that his philosophical views are related to the way he understands, and teaches, economics.

[37] See Mankiw (2008a and 2008b).

Arguing in favour of a specific interpretation of efficiency means favouring efficiency at the expense of other social values.

3.2 Let Me Tell You What is Fair – Autarky as Moral Baseline

Unconditional adherence to the principle of comparative advantage as the basis for policy recommendations raises several issues of justice (Gonzalez, 2006). For example, it may create perverse incentives for countries in their decisions on how to structure their economies. Given that it is most profitable when specializing in the kind of economic activity that is cheapest relative to world market prices, poorer countries might opt to use their 'comparative advantage in wrong-doing' to exploit these distinct gains. Poorer countries might use their 'advantage' in being able to keep labour costs low (through sweatshops, outlawing of unionized labour or forced prison labour), lack of environmental regulations, or lack of democratic governance (corruption) to bring products to the world market. Comparative advantage theory does not discriminate among legitimate and illegitimate sources of comparative advantage, and, technically, there is no difference if the principle of comparative advantage is presented with cloth and wine (as Ricardo did) or with hand guns and exotic animal parts. *Normative trade theory* does not provide criteria for goods that ought to be included in the market and those that should be excluded.

Yet neoclassical visionaries, when pressed, do offer a view on what they regard as legitimate or not. Trade theorists such as Bhagwati (1995) regard differing social and environmental standards as priorities that nations have chosen voluntarily as legitimate objectives of their economic policy. Most of the time, theorists regard restrictions on trade as outcomes of rent-seeking and selfish lobbying by special interest groups. Social and environmental concerns are rarely taken seriously, but denigrated as "blue protectionism" (in the case of workers' rights as justification for trade restrictions) or "green protectionism" (in the case of provisions designed to avoid damage to the environment) (p. 12). In the same paper, Bhagwati shows more ambiguity when treating the matter of child labour. Without specifying the conditions for the scope of legitimate comparative advantage, it seems arbitrary what is and what is not to be included in the comparative advantage of a country (for a critique, see Barry & Reddy, 2008).[38] Yet even if neoclassical theorists do not engage in such radical justifications, they usually resort to the argumentation that "[a]s a general rule, whatever a tariff can do for the nation, something else can do better" (Pugel, 2006, Chp. 7).

Often, the defence of comparative advantage without restrictions takes place in textbooks by means of providing case studies against what theorists call the *pauper labour fallacy*, most prominently argued in Krugman & Obstfeld (2006, Chapter 17, p. 7). The fallacy consists of the argument that we should not endorse trade with "seemingly 'unfair' competition from cheap foreign labour" (Grubel, 1981, p. 160). Krugman (1998) writes:

> This is the classic 'pauper labor' fallacy, the fallacy that Ricardo dealt with when he first stated the idea, and which is a staple of even first-year courses in economics. In fact, one never teaches the Ricardian model without emphasizing precisely the way that model refutes the claim that competition from low-wage countries is necessarily a bad thing, that it shows how trade can be mutually beneficial regardless of differences in wage rates. (p. 4)

Of course, Krugman is right to portray trade as more than a zero-sum game and to argue that trade with low-wage countries is not necessarily a bad thing, and to say instead that trade is mutually beneficial irrespective of wage levels.[39] It may even be a fallacy to argue that just because trade with low-wage countries has some bad effects, trade relations as a whole are bad. However, the problem is

[38] This has been pointed out, from different perspectives, in DeMartino (2002) and Kurjanska & Risse (2008). Risse, for instance, notices that it is morally dubious to accept whatever social costs of production give rise to a comparative advantage in the production of a foreign good. DeMartino (2002) similarly criticizes what he believes is an inherent moral relativism of comparative advantage thinking.

[39] In an op-ed in 2007, Krugman contradicts his previous remarks, conceding that there may be some merit to the *pauper labour fallacy* after all.

that the *pauper labour fallacy* is *only* truly a fallacy if there is complete mobility of labour, the factor of production in question here. The model with which comparative advantage is defended by Krugman simply assumes perfect mobility within the domestic setting – people can and will costlessly move from contracting to expanding industries. But if they cannot – that is, in *reality* (and *particularly* the reality of poor countries) – then the fallacy is not a fallacy at all. Krugman puts forward his "debunking" of the supposed fallacy with such verve that it makes the audience forget the assumptions of the model. The oversight here is that just because trade is not necessarily detrimental, it *needs* to be universally endorsed as the relevant baseline is autarky.

3.3 Denigrating Opposition in Public Debate

In a 2008 New York Times op-ed, Greg Mankiw tried, in an ironic manner, to delegitimize arguments that challenge mainstream trade orthodoxy. Mankiw (2008a) compared trade economists with "mere Muggles" or Joe Sixpacks. In a similar vein, Krugman (2002) has suggested that intellectuals do not understand comparative advantage because they do not *want* to understand it. Krugman conjectures that it is just popular and avant-garde to criticize economists without fully grasping their arguments. In addition, Krugman suggests that critics have an aversion to modelling and oppose a mathematical view of the world. He claims that anti-free traders attack economists because it is "cool" and a "way to seem daring and unconventional" (p. 23). Critics hence attack economists just *because* free trade has an iconic status.[40] Yet this polemic completely neglects three aspects. First, that lay-people in western economies show strong and significant resistance to laissez-faire policies of international trade. Second, that there are well-reasoned arguments against free trade. Third, that there may be well-reasoned arguments in favour of free trade that do not rely on comparative advantage alone.

Yet the polemic exemplified by Mankiw and Krugman does not only find its place in op-eds, it is prevalent in conference proceedings, articles and textbooks. Throughout the intellectual history of free trade, free traders from David Ricardo and J. S. Mill onwards have accused protectionists and trade-sceptics of being ignorant of the basic tenets of international economics. Of course, there are people who (sometimes wilfully) misconstrue economic trade theory. Yet it has become almost a rite of passage for international economists to ridicule lay-persons when it comes to scepticism concerning the principle of comparative advantage. Joe Sixpack is committing cognitive mistakes, which leads Krugman (2002) to use – as a sub-heading – the title "You just don't understand" (p. 23), bemoaning a "sheer lack of comprehension" (p. 24). Krugman complains about the need to be "reduced nearly to babytalk" to bring across his ideas (p. 29). Similarly, he asks:

> Why do journalists who have a reputation as deep thinkers about world affairs begin squirming in their seats if you try to explain how trade can lead to mutually beneficial specialization? Why is it virtually impossible to get a discussion of comparative advantage, not only onto newspaper op-ed pages, but even into magazines that cheerfully publish long discussions of the work of Jacques Derrida? Why do policy wonks who will happily watch hundreds of hours of talking heads droning on about the global economy refuse to sit still for the ten minutes or so it takes to explain Ricardo? (p. 22).

Krugman attempts to put forward an analogy between the doctrine of comparative advantage and the idea of evolution via natural selection, arguing that each idea is "simple and compelling to those who understand it, but about which intelligent people somehow manage to get confused time and time again" (p. 22). In what I take to be an appeal to an argument from authority, Krugman attempts to put Charles Darwin on an equal intellectual footing to neoclassical trade theorists: Darwin had an idea that was difficult to understand; and Ricardo also had an idea that not everyone could grasp. As a matter of

[40] It does not help that among the variables influencing trade preferences, it is often found that "economic education" has strong effects on preferences resisting liberalization (Hainmueller & Hiscox, 2006; Kemp, 2007; Caplan & Miller, 2010; Medrano & Braun, 2012; Ehrlich, Maestas, Hearn & Urbanski, 2010). Too often, the faulty conclusion is drawn that people who are not unequivocally enthusiastic about free trade are uneducated and intellectually inferior. In this regard, even parts of the political economy literature on trade preferences is not immune from the neoclassical vision: many articles assume that the desirability of free trade is a scientific fact that the uneducated simply do not 'get'.

fact, Krugman is drawing a parallel between biology as a science and economics as a science as well – whereby he might not only misrepresent economics but also evolutionary theory. Be that as it may, Krugman conflates the *understanding* of the concept of comparative advantage with *endorsing* such trade policy on the basis of the concept alone![41]

4.1 The Free Trade/Protectionism Dichotomy

We have followed the *neoclassical vision* of trade in theory and rhetoric, particularly its endorsement of free markets. In the following, I will show how the *neoclassical vision* tries to uphold a dichotomy of either free trade or protectionism that is based on contestable assumptions. The argument will not exhaust all the good arguments *in favour* of free trade that exist, but will rather concern itself with the bad arguments *in favour* of free trade that are made in textbooks. A particular problem is that the definition of what counts as protectionism varies from a narrow account (sheltering domestic industries from world market prices through instruments such as tariffs or quotas) to a more permissive account (government market interventions more broadly understood).[42]

It is common to all the textbooks surveyed that they go through the 'best' economic arguments for protectionism in a structured, dialectical fashion: a protectionist account is presented and refuted. A second protectionist account is presented and refuted. This maieutic method occurs in all the textbooks surveyed. Meanwhile, the case for free trade is strengthened, culminating in the conclusion that there is no "theoretically valid" *and* "pragmatically sound" case for protectionism. Examples of this approach can be found in all textbooks, for instance in Grubel (1981): "[...] most economists believe that all of these special circumstances have failed to destroy the general case for free trade we have just made" (p. 49). The "general case for free trade" is defended throughout. Textbooks often admit, however, that there are some theoretically valid arguments (mostly three) that favour curtailing trade under specific assumptions. Most often cited are the following three:

> 1. Terms of trade arguments for protectionism. These arguments claim that a country – given that it is sufficiently big in one market – may influence relative world prices, and have, through this beggar-thy-neighbour policy, a welfare gain through a protectionist tariff (also called the optimum tariff).
> 2. Infant industry arguments for protectionism. These arguments claim that it is possible for a country to selectively protect some industries in order to actively create a comparative advantage in them.
> 3. Strategic trade arguments. These arguments claim that a country can in some cases strategically shield itself from world prices in order to win market shares vis-à-vis a competing nation in the same industry.

Nearly all textbooks grant that, theoretically, these arguments are valid (Pugel, 2006, Chp. 7). But they also argue that they are unsound. Thus, textbooks in mainstream international economics arguably step out of their realm of expertise. In the case of all the arguments, epistemological reasons are cited for why nations should not protect, even if they have a "theoretically valid" case: policy makers simply do not know enough about markets, the argument goes, to understand which protectionist devices will work, and which will not (most textbooks make this Hayekian argument without citing its source). But this relies on a specific assumption about governments: policy makers are supposedly incapable of applying clever economic statecraft. Grubel (1981), for example, conjectures that infant industry arguments do not work as protectionism becomes entrenched. Yet he presents instances of picking

[41] Krugman (2002) then proceeds to give "tactical hints" (p. 34). He argues "that it is remarkably easy to make fools of *your opponents*, catching them in elementary errors of logic and fact. This is playing dirty, and I advocate it strongly." (p. 34-5, my emphasis). Surely, this must be part irony.

[42] Bagwell & Staiger (2002) describe protectionist policies as motivated by either political motivations (governments concerned about the distribution of national income) or by concern for the maximization of national income. Textbooks dismiss protectionist policies even beyond these grounds in more narrative passages.

winners through government intervention as *illegitimate*.[43] Furthermore, we do not have enough information, he argues, to pick winners and it is difficult to think about the proper social rate of discount between the cost of protection now and benefits in the future (p. 158). Grubel unwittingly shows his belief in efficient markets when he argues that true market failures are impossible because if there were an exploitable benefit, market participants would have already invested. He says that "if there are such externalities, the market would respond to them and there would be no need for tariff protection". This is indicative of a view of markets being perfect, expectations being rational, and that market imperfections would swiftly be arbitraged away. Grubel claims that if there is supposed "underinvestment", it happens for good reasons (p. 158). Some authors are cognizant of non-economic arguments for protectionism that may "not be advantageous from the strictly economic point of view" (Gandolfo, 1994, p. 142). Gandolfo argues that under the condition that much information exists and the precise dynamic path of the economic system is known and the social discount rate for protection can be quantified, then "it is not possible to state in a general way that protection of the infant industry is definitely beneficial or definitely harmful".

One example of dismissing infant industry protection on purely empirical grounds is given by Winters, who derides the "spurious argument for protection" (1985, p. 106), and argues "that free trade exposes our producers to 'unfair' competition from cheaper factors of production abroad. This implies that all cheap imports from abroad should be discouraged, which clearly undermines the whole of international trade based on comparative advantage" (Winters, 1985, p. 90).

Other counter-arguments, mostly against Terms of Trade and Strategic Trade rely on bold claims about international relations and economic diplomacy.[44] As Terms of Trade interventions and Strategic Trade are "beggar-thy-neighbour" policies, nations which implement these policies will allegedly face retaliation on the part of other nations, which might escalate into trade and tariff wars. Few textbooks go on to substantiate these claims but merely replicate shallow counter-arguments. Here, free trade is advocated, but microeconomic analysis abandoned. Instead of pleading ignorance about adjacent academic fields, conjectures are offered that belong to other disciplines but serve to emphasize the benefits of trade liberalization. This treatment of politics and legislative institutions stands out as curious, and a good representative quote comes from the early, more market-friendly, Krugman: "Any attempt to pursue sophisticated deviations from free trade will be subverted by the political process" (Krugman and Obstfeld, 2006: Chapter 9).[45]

With this analysis, I do not endorse protectionist measures that neoclassical visionaries oppose. Yet it must be pointed out that the argumentation in textbooks is flawed. There are good reasons (e.g. *adaptive efficiency*) for free trade, with heavy qualifications that will not be discussed here.[46]

In establishing a dichotomy between free trade and protectionism, we must see a rhetorical trick. By giving only autarky as the relevant baseline case, free trade advocacy is without an intelligent alternative. Yet this precludes alternative ways of doing economic policy. There may be legitimate motives for striving for those alternatives: increasing or decreasing the domestic production or consumption of a good; increasing government revenue; changing the distribution of income; increasing or decreasing the employment level in a certain industry. What if these goals are

[43] There is some variance in textbooks. Winters (1985), for instance, argues that raising revenues from infant industries is legitimate (p. 106).

[44] But not about infant industry arguments, which are not strictly a beggar-thy-neighbour policy. Pugel (2007) gives several examples of how restrictions on trade can be disadvantageous: foreign retaliation may be costly through potential trade wars; the enforcement costs of upholding the tariff may be high; rent-seeking costs are a waste of societal resources (unproductive lobbying); foreign producers may benefit from tariffs which might lead to worsened international competitiveness; tariffs might stifle innovation. Generally, it seems that neoclassical theorists are happy to include long lists of the disadvantages of trade restrictions without following up the arguments.

[45] On optimum tariffs, see Bhagwati & Srinivasan (1975); on strategic trade policy, see Brander & Spencer (1983).

[46] Convincing historical accounts are provided by North (1990) and Landes (1998), who argue at length that for long-run growth, *adaptive efficiency* matters, rather than allocative efficiency. The policy recommendation hence would be: 'Be open to innovation!'

democratically chosen by citizens? Would this override neoclassical policy recommendations? The way that neoclassical theorists attempt to circumvent these debates is usually to argue that whatever a population wants, it is never the best policy to set up import barriers for those purposes. The best policy is always to first allow trade, and then redistribute according to the desired social goal. That this redistribution is always *theoretically* possible then shifts away controversial questions of distributive justice.

4.2 Autarky and There Is No Alternative (TINA) logic

When answering the question of why free trade is desirable, economists in textbooks always put forth the case that without trade we would be worse off in autarky (e.g. Pugel, 2006, p. 15). Free markets are the baseline case for neoclassical theorists. An example is Krugman and Obstfeld's (2006) treatment of the *pauper labour fallacy,* which was also mentioned earlier. "The wages paid to export workers in poor countries should be compared not to what workers get in rich countries but to *what they would get if those export jobs weren't available*." (Chapter 17, 17-7, my emphasis). In similar fashion, Pugel (2007) asks, "Does trade lead to harm and to exploitation of workers in the South, as indicated by the low wages (and/or poor working conditions)?" (p. 40). To this, he gives the answer that the poor would be paid low wages anyway. In effect, he takes comparative advantage as exogenous without contemplating different reasons why there may be a comparative advantage in low wage labour. Safe to say, this is a very weak normative benchmark. With such a benchmark, free trade must be endorsed because 'there is no alternative' (TINA). With this dichotomy, tariffs are seen as restrictions and in need of justification as well as the outcome of special interests (rather than, for example, as an instance of legitimate collective determination). This is the problem of TINA logic: the inability to envision alternative values and worlds. The baseline account invoked favours the status quo distribution. Neoclassical theorists create a dichotomy between either free trade or protectionism (employing an "us versus them" rhetoric). This dichotomy is so pervasive that even critics of contemporary neoclassical economics sometimes fall into the trap of perpetuating this binary distinction. Even critics of mainstream economics are sometimes unwittingly held capture by conventional terminology and combative rhetoric.

4.3 Natural Distributions, Just Deserts

In the following sections, I will provide evidence of how normative trade theorists deal with matters of efficiency and equity beyond the theoretical choice of the efficiency criterion. Trade theorists seem to know better how societies should trade off material progress for matters of equity – or more precisely, pretend that no "problem" of redistribution exists theoretically. Let us highlight the quote by Mankiw again. "Whereas efficiency is an objective goal that can be judged on strictly positive grounds, *equity involves normative judgments that go beyond economics and enter into the realm of political philosophy*" (Mankiw 2007, p. 148, my emphasis).

The influence of the Fundamental Theorems of Welfare Economics (FTWE) on the neoclassical economic vision is tremendous – yet, paradoxically, difficult to see and seldom studied (the important exception is Blaug, 2007) The FTWE are presented as mathematical proof that competitive markets are Pareto efficient and that frictionless redistribution is possible if so desired. These mathematical findings are uncritically accepted as relevant for policy discourse (see Stiglitz, 1991, for limitations). In some international economics textbooks, it is explicitly said that the two Fundamental Theorems of Welfare Economics provide a rationale for treating matters of efficiency and matters of distribution separately. Yet, this move is no more than a brief attempt to justify the dominant focus on efficiency. I could not find a deeper analysis of the FTWEs and their significance for evaluating economic outcomes in any of the textbooks surveyed. But it is precisely the institutional complexity of actual (international) trade which renders the abstract 'findings' of the FTWE (assuming perfect competition etc.) moot for *normative trade theory* and makes the separation of matters of efficiency and distribution highly artificial.

The FTWE offer theoretical 'proof' of the possibility of redistribution without losses in efficiency, or of the gains from free market activity through state intervention or other transfers. As lump sum transfers are deemed theoretically possible, politics can simply redistribute after gains from free markets have been obtained. In this sense, free markets are prior to *redistribution*. One thing that the FTWE arguments miss is that this *redistribution* rarely takes place. *Redistribution* remains hypothetical and not actual. Secondly, and rhetorically more insidious and conceptually interesting, is the fact that the term *redistribution* is really a misnomer, as it implies that there is a natural distribution (whatever distribution results from free markets) and that policy interventions are *re-distributions*. This term has crept into the political economy literature, with *redistribution* understood as the effect on the distribution that the state makes with taxes, subsidies and regulation. Yet the decision to allow free markets is itself a purposeful distribution (Polanyi, 1944; Dugger, 1996). Surprisingly, with the exception of Blaug (2007), there is next to no critical or heterodox critique of the Fundamental Theorems of Welfare Economics and their interpretation in the standard neoclassical account. I will now present a more practical example concerning the neoclassical endorsement of *natural distributions* which particularly explains what neoclassicals understand as *natural*.

In public debates about whether losers from trade should be compensated, technology is often cited. The core argument is that trade is just like a technology that enables better consumption and that, hence, what is 'owed' to losers from trade should also be 'owed' to losers from technological advancement.[47] As a consequence, neoclassical trade theorists are often confronted with the argument that losers from trade are 'owed' something (job security, compensation for income losses or income risk, job-seeking stipends or funds to increase their skills). Textbooks and neoclassical theorists in the public debate offer the same view on what individual economic agents can legitimately expect in the economy: whatever the competitive economy ends up rewarding them with. Neoclassical theorists argue that it is not legitimate to assume that one's job will exist forever, and that for this reason losing one's job, as part of the natural functioning of the economy, should be expected.

Neoclassical theorists try to portray the economic effects of trade as analogous to the effects that technological advancement has. Technological advancement, in our current age, has a near unparalleled positive reputation. In the public sphere, technological advancement is synonymous with progress of civilisation. It is this reputation that neoclassical theorists wittingly or unwittingly want to profit from when likening the effects of trade to the effects of technological change. Just as technology has overwhelmingly positive effects, so, supposedly, has trade. In addition, however, the popular embracing of technological progress is a distinctly secular idea of progress – hope is associated with technology and, usually, there is a common belief that we will all increasingly profit from better technology and will be steadily better off as civilization advances.[48] I submit that a similar teleological belief informs the stance of neoclassical theorists on international trade and free markets. In addition to this, I propose that neoclassical theorists also largely buy into a specific pre-conceived notion of distributive justice – namely 'natural distribution' (based on the marginal productivity principle).

Normative trade theory puts forward a view on what individuals can legitimately expect to receive in the economy. Distribution is determined by each individual's marginal productivity. This is what each individual 'deserves' to receive and for which each individual is 'responsible' (by extension, this is also true for the nation). Friedman (1962, Chapter 5), for instance, makes it explicit that the price of labour – that is, wages – is set at the intersection between supply and demand and *therefore* expresses what society wants and ought to be considered desirable. DeMartino (2000) has similarly argued that there exists an 'implicit distributional commitment' in the *neoclassical vision*. In neoclassical theory, societal worth is decided in the marketplace. The view is that marginal productivity determines legitimate individual wages and hence legitimate social contribution: "each of us should be compensated in direct measure to our net contribution. Those with higher 'productivity' should receive higher reward" (p. 49). Apart from an implicit distributional commitment there is also

[47] I will only discuss the narrow and arguably one-dimensional category of losers from trade that can be labelled as such on the basis of monetary measures (loss of income, increasing income risk, job displacement). This is because I do not want to put forward a positive theory of who the 'real losers' from trade are here.

[48] See, for example, the libertarian think tank CATO (2004) arguing that "job losses are an inescapable fact of life in a dynamic market economy" and that there is no "significant difference between jobs lost because of trade and those lost because of new technologies or work processes. All of those job losses are a painful but necessary part of the larger process of innovation and productivity increases that is the source of new wealth and rising living standards" (p. 1).

an implicit commitment to end-result principles of justice (as Nozick termed them) within mainstream economic trade theory. End-result principles of justice evaluate a distribution of goods and services as desirable without taking into account *how* the distribution came about. What matters is the level of productivity, not the source of it, which is accepted as exogenous. This means that every individual or nation is wholly responsible for his own productivity. This pays no attention to the fact that individual productivity is a function of a history of productivity in the community in which the individual was brought up. In the *neoclassical vision*, productivity just exists – individuals are atomistic, timeless, not part of an evolutionary system. Yet, with “nothing but the market to appeal to for income, individual hardship is inevitable” in the neoclassical economy (Caporaso & Levine, 1992, p. 39). Non-intervention in markets is often justified both on normative grounds and for reasons of feasibility. Due to epistemological constraints of policy makers, it is unlikely that government intervention will result in an optimization of individual preference satisfaction. Redistribution is not feasible. Additionally, government intervention is inherently paternalistic. Governments should set the framework rules to enable fair gambles and the resulting just distributions.

The theme of the moralization of “natural distributions” is present throughout microeconomics. It is held by John Bates Clark (1899) and others that there exists a pre-political process by which benefits and burdens are distributed. Together with a teleological view of history, neoclassical theorists look at trade this way: free markets are considered natural and the resulting distributions are similarly ‘natural’ in the sense that these distributions are just history playing out while, collectively, society is on the road of progress. In a competitive economy, losses are part of the game.[49]

The problem with this view is that it cannot make sense of morally repugnant outcomes or processes in markets. There is no such thing as a “moral market failure” in the *neoclassical vision*. There is no instance that could judge an economic outcome as reasonable over and above what individual rational actors decide to do.

To invoke just briefly a modified thought experiment from Robert Nozick (1974), think of Wilt Chamberlain, one of the best basketball players who earns a great amount of money due to his exceptional talent. If thousands of people are willing to pay a bonus charge to see him play, does this justify the incredible wealth he will amass with this? Nozick argues Chamberlain does deserve his earnings, and in fact that no other economic arrangement would be compatible with a strong commitment to individual liberty, and specifically property rights (p. 160). Free economic exchanges are just individual instances of voluntary acts and the end result is just if its constituent parts are just. Interferences are violations of core rights. This perspective does not allow formulating what is “reasonable” from any other perspective than the individual one. Voluntary exchanges are legitimate and whatever they result in is also just if the point of departure, the initial distribution, was also just. Yet, is the Chamberlain example not an instance of a moral market failure in the sense that there is a collective action problem preventing individuals from jointly determining a lower wage for Chamberlain? What if all sports fans had come together to agree that they will all only pay a fraction of the bonus charge to see him play, because they agree that a purely market-based remuneration based on marginalist principles would be excessive? Why is this not the appropriate standard for assessing what sports stars like Chamberlain could reasonably expect to earn?[50]

Instead, for normative trade theorists, the market is a system of voluntary exchanges between individuals who are rationally self-interested and are endowed with property rights, acting completely independently of one another. The very set-up of this model precludes the deliberative approach from attempting to collectively find “reasonable” answers to problems of economic policy that go beyond

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[49] So what are the conditions that determine whether a loser is worthy of compensation and which principles should guide this decision? This assessment requires a normative framework that would need to be defended; it requires a theory of what people can legitimately expect as participants in a fair economy. The general perspective of justice that Rawlsians would take here is that all policy fields involve the creation of burdens and benefits from cooperation, the justice of which is to be assessed by social institutions dealing with them. For Rawls (1999), all social values ought be distributed to everyone’s advantage – there is no distribution that somehow precludes this account (p. 62).

[50] See also Cohen (1977).

what individuals, if left to themselves, would decide in the marketplace. The *neoclassical vision* is even more simplistic: transactions that take place *are* welfare-improving for both parties. They are voluntary, so that any power relations or hierarchies between contracting parties are generally assumed away. Exploitation, domination and coercion do not feature in the vision; the initial distribution is never called into question. Markets increase opportunities to increase satisfaction – and that is that. In fact, it is logically impossible in the neoclassical system to harm someone in a market exchange, because individuals only ever enter the market with the intent of performing voluntary transactions. By definition, markets are legitimate, fair and desirable.

In a moralized debate on trade, little room is made for legitimate claims of losers. Losers from trade are losers from unlucky gambles. Losers in trade are not owed anything, as they can be held largely responsible for the decision they have taken to work in a specific (protected) industry. Indeed, in free markets winning and losing is not something that politics should be concerned with. There may be economic harm done in fair competition – but there is no moral wrong done in free competition. Yet the neoclassicals do not outline conditions for what *counts* as legitimate competition and what does not. Some reject talk of legitimate expectations to compensation completely, in the spirit of Hayek (1979). For him, the term 'distributive justice' or 'social justice' can in principle "have no application to the result of a market economy: there can be no distributive justice where no one distributes" (p. 1). In the case of trade, then, the argument is best presented by Kapstein (1994):

> Trade-displaced workers do not have any greater claim to taxpayer-sponsored assistance programs than other workers, and indeed they may be owed less. The reason is that, to the extent workers in import-sensitive industries accrued a rent during the pre-free trade era (since they were protected by trade barriers that pushed factor prices to artificially high levels), they have no claim on state funds now that those barriers – and, in turn, their rents – have been reduced (p. 261).

It is argued that compensating the losers from liberalization is doubly wrong and would add insult to injury. The tariffs hurt society enough already, and now the protected want compensation on top of that? The thought behind this goes as follows: citizens have a moral claim to free markets, and inefficiency is morally unjustified. Hence, when some industries are wrongly subsidized at collective disadvantage, the protectionist devices ought to be abolished and the community ought to be compensated for the infringement of the right to free markets. Markets should be free, and harm from trade is not a wrong. The losers are owed nothing, as they were the ones choosing deliberately to engage in a voluntary gamble in which they happened to lose. This response is close to what luck egalitarians call 'bad option luck'. In fact it is possible to read the strong moral undertones in the textbooks when protected industries are talked about: free trade is not only efficient but also *demanded* by justice, and protected industries do not deserve to be artificially shielded from world market prices. With regards to individual losers in trade, what is implicit in these arguments is that workers intentionally chose to work in the industry they are working in. Hence, workers are responsible for picking the 'wrong' (e.g. non-comparative advantage) industry. Winners do not owe losers anything.

An example is Landsburg (2008), who in public debate is providing a mix of consequentialist and deontological arguments. The self-described libertarian economist is publicly assessing whether losers from trade should expect compensation. What is special about his argument is that the entire op-ed is inserted into Mankiw's textbook (Mankiw, 2011, p. 187) and nicely represents the *neoclassical vision*.

The argument in favour of free trade is familiar in that it is said that Americans win as a group when engaging in trade. Landsburg offers that the relevant baseline criterion for evaluation would be a world without trade, just as the analysis goes in the textbooks. Landsburg argues that we do not owe the losers from economic activity anything. He gives the example of an online pharmacy that a buyer chooses as his preferred place to buy medicine over another, local, pharmacy. Landsburg argues that even if the buyer was a customer for years at the local pharmacy, there is no need to compensate the pharmacist. Nor is there one to compensate your landlord or other businesses that you do not use anymore. This is because this all falls under the notion of 'fair play' in a market economy. Landsburg then makes the claim that our "moral instincts say that we owe them nothing" and that "[p]ublic policy should not be designed to advance moral instincts that we all reject every day of our lives" (p. 1).

Landsburg makes a deontological argument (without highlighting that it is one). He entertains the following hypothetical: what if bullying was an occupation and we were to change the rules in such a way as to make it less profitable to bully – ought we to compensate the bullies now? Of course not, he argues, as bullying is inherently immoral. Just like inhibitions to trade, the neoclassical trade theory here finds a good explicit representation in Landsburg's claims: restrictions to trade are inherently immoral, on top of being inefficient:

> Bullying and protectionism have a lot in common. They both use force (either directly or through the power of the law) to enrich someone else at your involuntary expense. If you're forced to pay $20 an hour to an American for goods you could have bought from a Mexican for $5 an hour, you're being extorted (p. 2).

Landsburg is an excellent example of faulty *neoclassical vision thinking*. First, he thinks in binary categories: it's either free trade or protectionism. Second, he thinks that trade that is not free is necessarily enriching some at the involuntary expense of others, as the only relevant "expense" to consider is one of efficiency. All that matters for a normative evaluation of the example are the free choices of individual economic participants. In such a perspective, no independent importance *can* be attributed to political values and appeals to, for example, democracy or community. Inhibiting trade is as unjust as bullying; no other reasons regarding the social and political good are admissible to convince us otherwise. Lastly, unlike bullying, being in a protected industry is hardly a free choice. Bhagwati (1996) and others refer to "kaleidoscopic comparative advantage": they argue that in our world economy today, comparative advantage in practice resembles a "sort of musical chairs", where "one day I have comparative advantage in X and you in Y, and tomorrow it may be the other way around, and then back again" (p. 239). In the light of this volatility in international trade markets, this may be just one simple argument why notions of responsibility for allegedly "picking the wrong industry" are misplaced. If Bhagwati's contention is true and kaleidoscopic comparative advantage in practice is constantly changing "what a country is good at," then the contention that industries are "freely chosen" by workers becomes implausible. Being at the whim of changing world markets, it is hard to maintain that factors of production (workers) are responsible for their own economic well-being. Individual marginal productivity is not a good yardstick for social contribution in a world of volatile markets for other reasons: even if it were possible to empirically determine social contribution, it would not make it morally right to follow the principle of marginal productivity.

5.1 Polities, Politics and the Neoclassical Vision

Textbooks present a deeply impoverished account of the *polities* it theorizes about. When textbooks write about policy they mean *national* policy. Neoclassical trade theory hence, in its ambition to give policy advice, takes the entity of the nation as given. Pugel (2007) argues in the beginning of his textbook: "As long as countries exist, international economics will be a body of analysis distinct from the rest of economics […] international economics is a special field of study because nations are sovereign" (p. 10). Pugel continues to argue

> International economics is different [because] [n]ations are not like regions or families. They are sovereign, meaning that no central court can enforce its will on them with a global police force […] [a] nation can have its own currency, its own barriers to trading with foreigners, its own government taxing and spending, and its own laws of citizenship and residence (p. 5).

Textbooks start, understandably, from a Westphalian conception of international politics and economics. Nations grant market-access to each other and hence shape the international trading order. In fact, every nation does have "the option to ignore or defy [...] global institutions if it really wants to" (p. 10).[51] Yet in the neoclassical vision, polities display no discernible difference in terms of the *values* that might set them apart. In the simplest trade models, the only relevant difference between

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[51] For rare remarks on how international economists endorse a Westphalian conception of the world see Krugman (2007).

two polities lies in their respective productivity. Gains from trade arise through exploitable differences, and political entities vary in their technologies, tastes, resources and factors of production. Yet textbooks suppose that nations are uniformly guided by the same values that shape how they structure social rules and institutions. Textbooks acknowledge the existence of different polities, but disregard the possibility of them engaging in policy decisions that defy economic wisom. The same policy recommendations apply to all of them. Yet nations might not share the reasons and normative commitments of the *neoclassical vision*. Nations are thought to consider only orthodox economics – and nothing else. Textbooks are fully unaware of presupposing these values for all political entities. There is no scope for real difference.[52] Grubel (1981) says for instance:

> There are many economists who believe that the loss of national sovereignty through these mechanisms simply is a necessary cost of living in a world of nation-states which are interdependent through international trade and the ownership of capital across countries. (p. 601)

Textbooks imply that nations should only want one thing: efficiency – even at the expense of national sovereignty.

A strange relation to politics and political institutions is found in the neoclassical account. Politics is considered only in two ways. It is either a nuisance – an *obstacle* to the preferred social organizing mechanism (of the market) – or an ideal role of politics is described: one that repairs markets when they fail – hence, it is *derivative* of the market.

Joan Robinson (1962) has spelled out why it is important to address ideological questions in economic thought. She writes, “Any economic system requires a set of rules, an ideology to justify them, and a conscience in the individual which makes him strive to carry them out” (p. 18). In this light, politics plays the role of being an *obstacle* to the market in normative economic trade theory. When considering policy recommendations, political economy arguments are often put forward. Trade policies in practice are portrayed (probably rightly so) as being dominated by special-interest politics and not by actors who altruistically have aggregate national costs and benefits in mind. This forms the basis of a vast field of the political economy of trade. Here, the central point of investigation is the question of why politics precisely does *not* lead to a system of free trade (Milner, 2002). But insights from the literature dealing with this question are used in textbooks only selectively to argue that free trade is better, because special interest politics is pernicious for aggregate national welfare. This is represented by the frequent citation of Bhagwati’s classification of certain lobbying as DUP activity, “directly unproductive profit-seeking” (Bhagwati, 1982). Political action in textbooks only occurs as interference and is always directly unproductive.[53] Political competition that is built on ‘good intentions’ simply finds no mention in textbooks – civil society is entirely absent.

Part of this strange understanding of politics is due to the endorsement of preference satisfaction theory – a theory that at first sight has little to do with politics. But when one realizes that neoclassical theory starts from the assumption that a social optimum is attained if individuals decide for themselves, it becomes clearer how politics (and politicians) is regarded as something ‘external’ that poses a hindrance to the attainment of happiness. Neoclassical theory cannot comprehend approaches that do not place happiness at their centre (for example, Rawls thought that social cooperation should not further happiness but that people should be best positioned to pursue valuable lives, where *valuable* may be partially external to the actually held mental states of the individuals in question). Anything that is not individual preference satisfaction is paternalism.

Institutionalist economists like Veblen (1899) have shown how one may actually criticize the content of preferences, for instance as anti-consumptionists stress the superfluous nature of “conspicuous consumption”. Yet neoclassical theorists do not accept this, clinging to Robbins’s theme of the neutrality of economics. For them, “[v]iews on what are essential and luxury goods differ widely” and “reveal paternalistic attitudes which most economists urge should be disregarded”

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[52] See also DeMartino (2002).

[53] Bhagwati himself recognizes that DUP may be legitimate in a “vigorous, pluralistic democracy” and while he continues his analysis from an “economic viewpoint” (1982, p. 990), this viewpoint is exclusively referred to in textbooks.

(Grubel, 1981, p. 603). Grubel, for instance, claims in his textbook that “[g]overnments not willing to accept the public’s judgments on what goods are desired face the very uncomfortable and difficult problem of selecting goods for production by what must by necessity be undemocratic means” (p. 603). Distributions that are not made by the market are here branded as ‘undemocratic’. This, then, would be a very thin understanding of democracy: It consists of whatever people want economically. The *neoclassical vision* hence exhibits an uncompromising attention to individuals (which some philosophers may very well find attractive), as well as a high aversion to ‘coercion’. This is a very unreflective ideal of freedom as ‘freedom from’.

The attractiveness of the reductionist view of individuals is that with only a few given variables (endowments, preferences, technology, rules of the game) we can know with precision what agents *will* choose. The notion of rationality is an example of a hybrid between a positive and a normative concept. Hausman & McPherson (2006) claim that rationality is, at its core, a normative notion (not necessarily an ethical one, however) that states: “You ought to behave like a rational being”. This is true, particularly with relation to the theory of preference satisfaction. Rationality may be a description, but, as Elster (2000) notes, such a descriptive theory depends on a theory of rational belief-formation – which gives credence to the preference satisfaction framework (p. 37). If human beings are assumed to be rational, it seems right to give more weight to what are ‘well-founded’ beliefs.

Neoclassical economics has an inbuilt theory of what motivates human beings, and the theory is unified in a way unlike anything the classical economists offered. Individuals attempt to achieve the highest level of want satisfaction. In some sense, this is also a very deterministic theory – individual economic agents necessarily act according to this overarching goal. Economic agents are forever choosing between alternatives, ranking them depending on their preference orderings in a rational (transitive and complete) and internally consistent way, maximizing welfare. Neoclassical consumers seek subjective satisfaction, utility or happiness – in a way modelled on early utilitarian theories. Veblen, the founding father of institutionalism, provided an early critique of this implicit view of human nature. His targets were the “Austrian” economists of the 1890s, but I think his critique applies to the *neoclassical vision* today in equal measure. For Veblen (1898), the reason for

> the Austrian failure seems to lie in a faulty conception of human nature [...This is because] the human material with which the inquiry is concerned is conceived in hedonistic terms; that is to say, in terms of a passive and substantially inert and immutably given human nature. The psychological and anthropological preconceptions of the economists have been those which were accepted by the psychological and social sciences some generations ago. The hedonistic conception of man is that of a lightning calculator of pleasures and pains who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. (p. 373)

If both consumers and producers maximize – utility, satisfaction, consumer welfare, profits – then from this stems the second view of politics from the neoclassical perspective: politics as *derivative* of the market: The role for politics and political institutions is to deal with externalities. Politics ought to set the rules of the economy such that the private costs and benefits that firms experience are brought in line with social costs and benefits. However, it is unclear what the basis for defining something as a relevant externality is in the first place. This is a classic point at which, in my view, only political philosophy can help provide answers. To give an example: consider the production and exchange of goods, such as chemical products, between person (a) and (b) which leads to a deterioration of the quality of life of (c), a farmer working downstream. Only a comprehensive moral framework can give the scope conditions under which a tax or any governmental intervention in the exchange is justified. In the example, one could argue that sustained exchange in the above case violates a principle of moral equality in the form of (c) being harmed as a consequence of the exchange. But what if (c) is a herd of sheep, or the environment in general? Are damages to these affected parties negligible when they do not play a role in social welfare functions? In short: political philosophy is needed to define what constitutes a relevant externality. In the case of trade, political philosophy is required to answer the question of whether distributive effects of trade that make individuals better or worse off constitute such *relevant* externalities.[54] Terms such as *social marginal cost*, *market failure* or *social cost of production* display the same problem: they are frequently used in textbooks, but their necessary philosophical or moral underpinning is never provided. Instead, the terms are interwoven into formal analysis so as to suggest that their meaning is obvious and uncontested.[55]

Textbooks and neoclassical theorists consistently err in favour of markets and in disfavour of the state. The role of the state is to install regulation that limits positive or negative externalities *through* the price system and not *apart* from it. There is no room for deontology here: the state's function is only to be the handmaiden of the market (understood as the price-system), to repair it, aid its functioning and certainly not to go beyond it – for example by way of prohibiting certain transactions on non-economic grounds.

5.2 Institutional Preconditions for Market Exchange

In none of the textbooks is there a systematic inquiry into what the institutional preconditions for trade are. Markets require norms to sustain themselves. Yet the framework that enables markets is not created by them. Markets do not define and institute property rights; they cannot put into place their own conditions. The *institutionalist* critique regards markets as more than a price-system. Even if one expands the scope of what is meant by market only slightly, for example, as a system of property rights (i.e. rights of ownership that determine scope of use, sale, access to assets), neoclassical theorists are pressed to defend their claims.[56] That this is necessary has been argued by Hoaas (1993), who states that in economics textbooks between the 1920s and 1950s, frequently entire chapters were "devoted to historical and institutional description." These chapters would explain the historical genesis of the contemporary economic order. Those accounts have now completely vanished from textbooks.

So while neoclassical models simply assume the feasibility of some country A trading with some country B, they also simply assume that there exists a system of property rights, money and contracts embedded in a legal order making these elements enforceable. Arguably, there are cultural preconditions that are no less important in sustaining a capitalist economy that go unmentioned in models or their interpretation. Broader sociological and anthropological foundations are needed to make sense of the analysis. Yet, mainstream normative economic trade theory as found in the textbooks tacitly implies a working institutional set-up which includes a government that is able to levy taxes and to (hypothetically or actually) redistribute wealth in society, and which would be able to identify, when Kaldor-Hicks is taken seriously, who exactly the losers in society from trade are in order to calculate whether there is a net benefit from employing free trade. In order to counteract externalities, someone needs to instate clever regulation – yet the existence of a redistributive state is simply presupposed. Of special importance in this regard is the existence of individual enforceable

[54] Or at least, political philosophy can show the normative alternatives available and at issue here.

[55] At most, and this is rare, it is conceded that externality arguments often involve making value judgments that are hard to quantify. Grubel (1984) claims that some are "easier" to identify, such as "pollution" or "congestion" (p. 158), but Grubel does not aim to give a characterisation of what makes an externality *socially* relevant. Theorists quickly put this aside and usually then give an account of the *theory of the second best,* which says that in such situations policy makers need to target the distortion directly so as not to introduce more distortions into the economy. Hence, free trade must be continued, and the state has to step in with either taxes, subsidies or regulation to handle the externality. Neoclassical theorists argue that restricting trade is *never* the first-best option, nor that free trade should be conditional upon these measures.

[56] Wade (2009) argues: "The most visible and arguably dominant grouping was the 'institutionalists' (including such leading figures as Thorstein Veblen, Wesley Mitchell, [and…] John Commons). It was a broad and non-exclusive movement which cohered around a shared commitment to: (a) scientific investigation; (b) empirical research; (c) theory building (but not based on deduction from simple assumptions); (d) emphasis on the importance of institutions in determining economic outcomes; and in particular (e) the need for public policy and public regulation to offset the inadequacy of unregulated markets" (p. 108). Wade gives an overview of institutional critiques when warning against what he sees as toxic neoclassical tendencies in contemporary research in international political economy.

property rights. As Max Weber (1947) already underlined, the "[e]xchange economy involves a complete network of contractual relationships, each of which originates in a deliberately planned process of acquisition of powers of control and disposal". Weber recognized that the legal order was "an indispensable basis for control of the material means of production" (p. 171).

All this points to the plausibility of a normative counter-vision that sees markets as normatively and factually an "instituted process". Drawing on the ideas of Polanyi (1957), institutionalists like Dugger (1989) understand the market as man-made: far from beyond "human will", markets are not "a product of natural law", but instead the outcome of "collective action" (p. 607). In "The Great Transformation", Polanyi (1957) insists,

> There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures – the leading free trade industry – were created by the help of protective tariffs, export bounties, and direct wage subsidies, laissez-faire itself was enforced by the state […] (p. 139).

For Polanyi, a period that was regarded as liberal had seen a build-up of "an administrative machine of great complexity which stands in as constant need of repair, renewal, reconstruction, and adaption to new requirements as the plant of a modern manufactory". Polanyi then talks about the "enormous increase in the administrative functions of the state" that fulfilled liberal tasks. He sees economic liberalism as a "social project which should be put into effect for the greatest happiness of the greatest number; laissez faire was not a method to achieve a thing, it was the thing to be achieved." (p. 139). Soon, Polanyi argues,

> [t]he road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's 'simple and natural liberty' compatible with the needs of a human society was a most complicated affair [...] the introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range (pp. 139-140).[57]

This contrasts with the *neoclassical vision,* in which the distribution of assets and endowments is exogenously given and property rights simply exist. What I argue is that the *neoclassical vision* has an implicit view of these matters that resembles the school of thought that defends the idea of "natural rights." Yet the burden of proof is on the neoclassical theorists to show that this is indeed the way in which property rights – and other institutions necessary to sustain economic policy – *should* be understood. For these theorists, rights do not come into being with a political system, but are somehow pre-political. Whether or not we *have* these rights is not something that I want to discuss here. I will only argue that there is the need for politics to actualize rights (whether positive or natural). We might have natural property rights – but a fully-fledged state is required to sustain any economic policy – and particularly one of free trade. Free international trade necessarily involves institutions that collect and act on the preferences of their citizens, ranging from trade officials and negotiators to customs workers, all embedded in a stable legal order. Hence, there is need for rules governing exchange; there is the need to assign responsibility for the external costs of economic activity; agreements must be established about the scope and content of property rights, contracts must be enforced and must outline which economic transfers are permissible (e.g. what counts as theft, extortion, exploitation, coercion and fraud). Social institutions, and particularly legislative activity, is required to define markets – prescribing the permitted scope, depth and content of market exchanges.

[57] Polanyi argues that in an ironic turn liberal economic policy will often lead to spontaneous restrictions and counter-movements to free markets. This is the famous idea of Polanyi's *double movement*. He shows that anti-laissez-faire policy is just as purposeful an action as laissez-faire policy. Yet why do *economic liberals* or neoclassical visionaries only understand market forces as *natural* but not associated counter-movements?

5.3 The Role of the Economist

In the textbook by Grubel (1981), the following remark is made relating to community indifference curves:

> [T]he gains in community income may lead to a redistribution such that one person's income decreases absolutely and all of the community's net gains, plus some more, accrue to the second person. This creates the greatest analytical difficulties; it frequently takes place in connection with the opening up of international trade (p. 36).

Modern welfare economics, says Grubel, cannot judge this because it involves interpersonal comparisons of welfare "which cannot be undertaken legitimately because economists have no objective measuring tool for this task". Grubel concedes "some ambiguities in the interpretation of welfare gains" (p. 38) but basically mirrors the accepted wisdom since Lionel Robbins. Ethics out of economics! Who are we to objectively measure welfare?

Other textbooks similarly claim that value judgments can be circumvented by endorsing Pareto – and, because this is very *hard* to achieve, we *should* endorse a basic one-dollar, one-vote metric as a measure of well-being – every dollar of gain is just as important as every other dollar of gain or loss, regardless of who the gainers or losers are (Pugel, 2006).

> Economists have tended to resolve the matter by imposing the value judgment that we shall call the one-dollar, one-vote metric here and throughout this book. The one-dollar, one-vote metric says that the analyst will value any dollar of gain or loss equally, regardless of who experiences it. The metric implies a willingness to judge trade issues on the basis of their effects on aggregate well-being, without regard to their effects on the distribution of well-being (Pugel, 2006, p. 30) .

Matters of distributive justice are rhetorically taken out of the equation, while, implicitly, *inefficiency* is regarded as *unjust*. Pugel similarly says that "we cannot compare the welfare effects on different groups without imposing our subjective weights to the economic stakes of each group" (p. 26). Hence, we may say something about effects on different groups but not whether one win offsets another loss, because "[t]he result depends on our value judgments" (p. 26). Pugel (2006) admits: "Anybody who expresses an opinion on whether a tariff is good or bad necessarily does so on the basis of a personal value judgment about how important each group is," which requires the need to "impose a social value judgment" (p. 135). This move is typical for textbooks: arguments against preference satisfaction are countered by a thinly veiled anti-paternalism. The individual knows best. Yet, actually, the economist knows best. By treating entities like the individual and the nation in an analogous way, normative trade theorists assume away a moral difference between these levels. By viewing the nation as unitary, it becomes easy to use economic theory as supporting the libertarian claim that the "most principled case [for free trade] is a moral one: voluntary economic exchange is inherently fair, benefits both parties, and allocates scarce resources more efficiently" (Cato, 2011, p. 10). Using microeconomic techniques indiscriminately across political levels pretends that there exist formal solutions for the problems of free trade policies. Yet, the idea that consensual exchange among mature entities is necessarily mutually beneficial is implicitly assumed to be true for individuals as well as nations. Exchange of goods between persons is not morally analogous to the exchange of goods between countries. International trade has a distinct political dimension to it (domestic distributive effects), which trade between persons has not (individuals are the ultimate unit, there cannot be inequality 'within' single persons). The application of microeconomic techniques across different levels of inquiry is expressive of this vision. Further, having picked Kaldor-Hicks as the relevant efficiency criterion, the mainstream economic trade theorist has implicitly claimed that compensation in society could work. This paradoxically undermines Lionel Robbins' spirit: Kaldor-Hicks introduces value-judgments and trade-offs between the interests of individuals through the back-door, yet rhetorically separates distributional concerns from the evaluation of efficiency.

Based on a self-understanding of the role of the international economist, Grubel (1981) admits in his textbook that it is not satisfactory that economists are the sole guardian of the value of efficiency, but argues that the alternative – that economists leave the political sphere to interest groups

– is even less desirable. Public capture by interest groups might happen. "Governments need the advice of economists about the general welfare implications of these policies" to counterbalance lobbying by self-interested interest groups. Grubel argues that economists might be imperfect but that lobbying by interest groups is worse:

> In this world, the unequal pressures on governments to interfere with free trade are equalized by economists who make the case for free trade through direct representations with governments and through public education (p. 42).

Grubel believes that economists *ought* to counter rent-seeking activity through intervention in public debate – this is the ideal of an economist as a public intellectual engaging in public education. Grubel sees it as the mission of the theorist to endorse the kind of normative analysis he is engaging in. To clarify this further, Grubel uses the metaphor of a politician sailing a ship while an economist provides a compass for the path of the ship. Although there may be "politically necessary deviations from the set course, sight is not lost of the final policy" (pp. 168-169). The final policy is, of course, free trade, and Grubel even advocates public education programmes that stress the gains from trade. Textbooks in international economics are already the first step on this agenda. The problem is this: while, rhetorically, ethics is pushed out of economics, efficiency is moralized in the narratives offered by textbooks – and economists are presented as disinterested advocates for the general good.

Conclusion: Yes, Normative Trade Theory is Political Philosophy!

Neoclassical normative trade theory has established itself as the dominant political philosophy on trade, even if it comes in the guise of philosophically disinterested economic theory. From the preceding remarks, the contours of *normative trade theory* should have become clearer. I have attempted to outline the areas in which mainstream trade theory engages in questionable normative arguments. The term *normative* as conventionally used in economics is applied to questions of policy prescriptions that are economic in nature. However, I have shown that economists have gradually come to believe that what they understand as *economic* is the only thing that matters for policy prescriptions, thereby equating arguments from normative economics with questions of what ought to be done generally. I have presented the methods, rhetoric and concepts employed by neoclassical theorists and have also reconstructed the strange relation that the *neoclassical vision* maintains to political institutions. I have shown how textbook authors present themselves as guardians of the social value of efficiency and moralize the case for free trade. Generally, I have shown that the normative arguments that economists make are inextricably linked to political philosophy.

Hutchison (1979) once distinguished the historical-institutionalist Smithian methodology of economics, which relates "technical economics to wider intellectual currents" from the abstract-deductionist Ricardian methodology, which "strictly divorces economic analysis from entanglements with historical analysis in other social sciences" (in Sally, 2002, p. 18). This critique of *normative trade theory* and the unravelling of its premises has hopefully contributed to the former endeavour while criticizing the latter. From the preceding critical analysis, it might be inferred that *normative trade theory* requires a more Smithean approach in order to reach convincing policy recommendations. One solution would be to increasingly engage in Smithean economics, or to become an institutionalist economist. Instead, I propose to go to the other extreme and start directly with the *normative vision* that should guide economics and the shape of the economy. There is a need for a counter-vision that sets reasonable limits on efficiency as the prime social value to be pursued. This will make policy makers (and others who should be interested in normatively ambitious economic policy) aware of the fundamental questions that have to be asked first, at a more fundamental or abstract level, before following neoclassical policy advice. Not even only institutionalist, or current heterodox, economics can answer the question of what kind of economic policy there *ought* to be. Broader, and more explicitly normative accounts of distributive justice and the role of markets as social organizing principles are required to start answering the question.

This paper had the ambition of *rescuing* the term *normative trade theory* from a contingent historical approach in economics. So far, the term has unfortunately been restricted to mainstream international economics. The aim of this piece has been to argue that in the light of contestable normative premises in economic theory in general, and in trade theory in particular, we need to question the current prerogative of economic theory to claim the term *normative trade theory* for itself and to explore its limits.

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