

Outcomes Assessment in Trade Policy Analysis: A Note on the Welfare Propositions of the "Gains from Trade"

It is rarely acknowledged that any of a number of what ethicists term *objects of value* could be used for outcomes assessment in trade policy analysis. These might include consumption of various commodities and services, workplace qualities, environmental outcomes, or certain human functionings. In practice, however, trade economists have embraced what Jagdish Bhagwati, Arvind Panagriya, and T. N. Srinivasan (1998) have accurately termed the "traditional" approach, in which the only recognized object of value is the utility of consumption levels of commodities and services. In practice (e.g., in applied trade policy modeling), there is a further restriction to *legally* consumed commodities and services, a distinction which, in light of significant international flows in illegal drugs, weaponry, and sexual services, is not as insignificant as one might first believe. Interestingly, there has been no real attempt to justify the identification of the utility of consumption of legally consumed commodities and services as the most appropriate choice, and this note makes no such attempt. Rather, it simply makes explicit some key welfare propositions underlying the traditional approach to what international economists term the *gains from trade*, widely acknowledged to be the most fundamental analytical contribution of international economics.¹ Making explicit these welfare propositions has the advantage of revealing why certain controversies in contemporary international trade policy have arisen. In short, these controversies reflect differences over appropriate objects of value.

It is worth repeating that, in principle, appropriate objects of value for trade policy analysis could include consumption of various commodities and services, workplace qualities, environmental outcomes, or certain human functionings. International trade theory rejects all but one of these potential evaluative spaces. In what follows, we try to trace the rejection process and relate it to accepted perspectives in moral philosophy. This process consists of the following steps: teleological restriction, subjectivist assertion, and objectivist limitations, the last two co-existing uncomfortably from a methodological perspective. In what follows, we take up each of these steps in turn.

Teleological Restriction

To make the issue at hand apparent, we begin this section with a quotation. Paul Taylor has written, "All organisms, whether conscious or not, are teleological centers of life in the sense that each is a unified, coherently ordered system of goal-oriented activities that have a constant tendency to protect and maintain the organism's existence" (1986, 122). This is a key proposition in the field of environmental ethics and one broadly recognized (if not always accepted) in modern moral philosophy. International trade theory rejects this view, however, asserting a teleological restriction in which only human beings serve as welfare subjects for the purpose of outcomes assessment. To put

it another way, trade theory takes on what J. Baird Callicott called an “anthropocentric value theory” that “confers intrinsic value on human beings and regards all other things, including other forms of life, as being only instrumentally valuable” (1984, 299).

Since these considerations are so foreign to international trade theory, it is worth noting that there are indeed articulated, nonanthropocentric value systems such as conativism, theism (stewardship), rational holism, and sentimentalism.² The last of these is most closely aligned with economic analysis, being grounded in the work of David Hume and Adam Smith, and implicitly deployed in contingent valuation analysis of environmental issues.

The teleological restriction of trade theory is significant from both methodological and practical perspectives. To take two examples relevant to World Trade Organization disputes, dolphins and turtles do not count as welfare subjects in the gains from trade analysis. Methodologically, it is easier to exclude these organisms. Practically, however, many environmentalists object to this exclusion, resulting in the prominent WTO disputes.³

For applied trade policy analysts working the institutional realm, the teleological restriction of the gains from trade is not entirely workable. WTO language on technical barriers to trade, for instance, recognizes the protection of animal and plant life and health as a legitimate goal. In addition, WTO language on sanitary and phyto-sanitary measures recognizes the protection of plant life as a legitimate goal. These considerations, however, remain remote from the standard gains from trade analysis.

We can now state the *first welfare proposition* of the gains from trade: For the purposes of outcomes assessment, welfare subjects are to be restricted to human organisms.

Subjectivist Assertion

From the perspective of moral philosophy, there are two broad approaches to the identification of objects of value in outcomes assessment: subjective and objective.⁴ Initially at least, trade theory embraces the subjectivist approach to identifying objects of value based on “wants” or “desires.” In particular, it asserts the role of *utility* as the sole object of value, in practice relegating other objective considerations to the category of “noneconomic objectives” on which there is a distinct literature.⁵ That the use of utility in outcomes assessment in trade policy analysis is a subjectivist approach is clear. As stated by L. Wayne Sumner, for example, “a theory treats welfare as subjective if it makes it depend, at least in part, on some attitude or concern on the part of the welfare subject” (1995, 767). There is, of course, some confusion in economics as to what *utility* actually is. For example, Joan Robinson dismissed it as “a metaphysical concept of impregnable circularity” (1962, 47). This discussion is one we want to eschew here. We will simply take as our starting point R. D. Collison Black’s statement that “[u]tility in the sense of desiredness is a purely subjective concept” (1987, 776). Instead, what we want to focus our attention on is what John Hicks called “the transition from Utility to

the more general good, Welfare” (1969, 95), or the role of utility in outcomes assessment in trade policy analysis.

Both ethicists and economists recognize that a different starting place is possible. Indeed, whether subjectivist or objectivist approaches to welfare are more appropriate is an active debate in moral philosophy.⁶ The case for an objectivist approach rests on the observation of David Sobel that “the job of finding a convincing method of separating out the well-being-determining subset of our preferences from the other motivational factors remains a crucial but neglected component of a satisfactory subjectivist account of well-being” (1997, 505). This is the problem of what Richard Arneson termed *non-prudential desire* (1999) and what Daniel Hausman and Michael McPherson termed *false beliefs* (1993). It is exactly what has led some economists such as Amartya Sen (1987) in an entirely different direction, toward an *objective list* approach recognized by ethicists and based on human functionings.⁷ Sen’s work has received lukewarm welcome from the field of international trade. It holds utility as being *distantly* related to welfare, whereas trade policy analysis takes utility to be *identical* to welfare. In making this identification, trade theory (implicitly at least) rejects objectivist approaches to outcomes assessment in favor of a subjectivist approach.

We can now state the *second welfare proposition* of the gains from trade: For the human welfare subject, welfare is to be assessed using the subjectivist notion of utility.

Objectivist Limitations

Having identified the welfare subject (human organisms) and the method of welfare evaluation (subjectivist utility), trade economists make a proposition about the *space* over which human subjective utility is to be defined. It is here that a bit of trouble arises, and it is for this reason that trade economists embrace at least two objectivist limitations, while avoiding a third.

The first objectivist limitation embraced by trade economists relates to the roles of the human welfare subject in the global production system. Human subjects are involved in both production and consumption. It is possible to define utility over aspects of either or both these spaces. In an objectivist limitation, trade economists define utility over the production space exclusively in terms of the amount of leisure (and this is done only occasionally) and over the consumption space more broadly, namely the consumption of (almost) all commodities and services. In terms of its significance, the objectivist limitation on the production space is most severe. As emphasized by Talcott Parsons (1931), Henry Bruton and David Fairris (1999), and Ian Steedman (2000), workplace considerations beyond leisure can have a tremendous impact on welfare, an impact largely ignored by trade policy analysis. This is a significant avoidance on the part of trade economists of what John Dewey termed “lived experience” (1958). As emphasized by Bruton and Fairris, “Because a person fortunate enough to have a full-time job will spend at least one half of his/her waking hours at work, it is incumbent

on social scientists to investigate the conditions necessary for the maintenance of working conditions that are safe and pleasant and for the creation of jobs that contribute to individual and social well-being" (1999, 6). This is a challenge that trade economists have resolutely avoided, and for this reason, the recent rise of contentious "trade and labor" issues is hardly surprising.⁸

The second objectivist limitation embraced by trade economists relates to legality. In the "true" subjectivist tradition of W. Stanley Jevons, "objects intended for immoral or criminal purposes . . . also have utility; the fact that they are desired by certain persons, and are accordingly manufactured, sold, and bought, establishes the fact. . . . It belongs to other branches of the moral and social sciences to investigate the ultimate effects of actions. In economics we treat only the proximate effects" ([1905] 1965, 12). If it were to embrace this "true" subjectivist view, however, international trade economists would find themselves in the awkward position of considering international trade in heroin and child pornography, for example, to be welfare enhancing. To escape this embarrassment, a second objectivist limitation is placed upon the subjectivist assertion, namely that illegal goods are to be excluded in utility measures.⁹

There is a third potential objectivist limitation here that is avoided by trade economists. This relates to Jevons' assertion that "[e]ven that which is hurtful to a person may by ignorance be desired, purchased and used; it has then utility" ([1905] 1965, 12). There are legally traded commodities that are, from an objectivist, scientific position, welfare worsening. To take one example, despite this overwhelming scientific evidence, and controversies about the tobacco trade, applied trade policy economists develop models in which increased tobacco product consumption improves measured utility.¹⁰ Legal trade in weaponry is a second important example.¹¹ Trade policy economists consider these legal trade flows to be welfare enhancing. Having rejected Jevons' subjectivist assertion in the former case, they accept it here.

The fact that the field of international trade economics embraces the first and second objectivist limitations (consumption-leisure and legality) and avoids the third (physical harm) is arbitrary if "traditional." It leaves the welfare apparatus of the "gains from trade" a bit shaky from a methodological standpoint, with objectivist restrictions imposed within a subjectivist framework. Nevertheless, that is the practice of modern trade policy analysis.

We can now state the *third welfare proposition* of the gains from trade: For the human welfare subject, subjective utility is to be defined over leisure and legally consumed commodities and services.

Conclusion

Behind the curtain of the "gains from trade" result, there is an obscured valuational exercise. Brought into the light, we see that this "traditional" approach to outcomes assessment in trade policy analysis rests on three welfare propositions:

1. *Teleological restriction.* For the purposes of outcomes assessment, welfare subjects are to be restricted to human organisms.
2. *Subjectivist assertion.* For the human welfare subject, welfare is to be assessed using the subjectivist notion of utility.
3. *Objectivist limitations.* For the human welfare subject, subjective utility is to be defined over leisure and legally consumed commodities and services.

This “traditional” approach to outcomes assessment, it must be admitted, evolved based on what Jacob Viner (1953) called “methodological preferences,” dictated by ease of analysis and data gathering. Commodities and services are traded, so defining utility over this space is convenient. Taking into consideration workplace characteristics is decidedly inconvenient, as is gathering data on illegal trade. Less inconvenient would be excluding commodities such as tobacco products and legally traded weaponry from utility functions, but this would compromise subjectivist appearances.

The pursuit of “traditional” outcomes assessment, employing the above three welfare propositions, has caused a distance between the discourse of trade economists and the concerns of policy makers. The “gains from trade” is analytically distant from parts of contemporary “new trade issues,” and this has caused no small amount of friction. It is perhaps worth remembering that trade economist par excellence Viner recognized that “too few objectives being recognized as properly operative” is part of a “tendency toward over-simplification” and that he included the “single goal” *utility* in his list of such tendencies (1953, 2).

Are there alternatives to the “traditional” approach? Clearly there are, but these other approaches would be less “neat.” An investigation of the links between trade and workplace characteristics is clearly called for, and this for all we know would strengthen the “gains from trade” in many, but not all, instances.¹² For a field that embraces “scientific rigor,” ceasing claims that legal trade in weaponry and tobacco is welfare enhancing would appear to be advantageous. Most important, being explicit about the welfare propositions of the “gains from trade,” embedded in both theoretical and empirical trade policy models, would assist social scientists and public policy analysts in their critical assessment of this most important work.

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Notes

1. This is in the spirit of John Dewey, who, in his discussion of “selective emphasis” or “selective choice” of objects of value in applied philosophy, stressed that “honest empirical method will state when and where and why the act of selection took place” (1958, 30). It was the late Dudley Dillard who first alerted the author to the importance of Dewey’s pragmatism to economic analysis, and this note has been written in Professor Dillard’s memory.

2. See Callicott 1984 and references therein.
3. Paul Taylor took the environmentalist position, namely that “a living plant or animal . . . has a good of its own in the same sense that a human being has a good of its own. It is . . . itself a center of goal-oriented activity” (1986, 124).
4. See, for example, Hausman and McPherson 1993 and Sumner 1995.
5. See chapter 28 of Bhagwati, Panagariya, and Srinivasan 1998. Here there is a bit of confusion. These authors stated: “The distinction between noneconomic and economic is a matter of convenience. Economists have traditionally looked at social utility functions defined on the flow of final consumption goods and services. Therefore, when we use the term ‘noneconomic’ to describe additional arguments that we put into the utility function, it is simply a matter of drawing attention to the fact that we are departing from the conventional. It would be equally appropriate to eliminate the distinction between economic and noneconomic altogether and merely discuss the theory of policy intervention when the objective function has ‘successively augmented’ arguments” (351). This analytical eclecticism, however, is decidedly *not practiced* in the field of international trade in either its theoretical or applied manifestations. For example, these eminent authors restricted the noneconomic objectives to only four very “economic” variables, namely, levels of production, consumption, trade flows, and factor use.
6. See, for example, Sumner 1995, Sobel 1997, and Arneson 1999.
7. Such an approach, for example, underlies the Human Development Index (HDI) developed by the United Nations Development Program and published in their annual *Human Development Report*. See also Nussbaum 2000. For a critique of this line of inquiry, see Srinivasan 1994. The objectivist approach, however, is supported by Daniel Hausman and Michael McPherson on the grounds that it “link(s) up more naturally to the normative terms in which policy is debated” (1993, 692).
8. There is a larger issue present here that is beyond the scope of this note. This is what Dewey identified as the “traditional separation” between work as means and consumption as ends, a distinction that “embodies a perpetuation upon the human plane of a division between need and satisfaction belonging to brute life” (1958, 368).
9. Hausman and McPherson recognized this problem when they stated that “it is questionable whether satisfying racist, sadistic, and other such antisocial preferences should count as contributing to individual well-being” (1993, 690–691).
10. See Reinert and Roland-Holst 1998 for an example in the case of North American economic integration.
11. World Bank President James Wolfensohn, for example, lamented the fact that “the world’s leading industrial nations provide nearly 90 percent of the multibillion dollar arms trade—arms that are contributing to the very conflicts that all of us profess to deplore, and that we must spend additional monies to suppress” (2002, 12).
12. An example of such an inquiry is Salma Zohir (2001) investigating the workplace characteristics of the Bangladeshi clothing industry, with a particular focus on the well-being of women workers. The nuances of such an inquiry transcend the polarities that typify standard debates about trade and labor issues.

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