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Economic Integration, Compensation, and the Value(s) of Work

Abstract
In this paper I will argue that the standard 'efficentarian' version of the argument in favor of more economic integration through trade fails both on its own terms and given the background assumptions implied by widely accepted intuitions about distributive justice. It fails on its own terms to the extent that it is presented as a Paretian argument since, as is clear both theoretically and from empirical evidence, economic integration creates winners and losers. Given the distributive effects of economic integration through trade predicted by standard models the predictable outcome is that workers in developed countries with relatively lower skills and training will be penalized by trade with developing ones. Thus, from a distributive perspective, in developed countries, those who were relatively worse-off to begin with have been further penalized by the policy choice of deepening economic integration; they paid the price for greater societal prosperity over time, and this is intuitively unfair. Of course, stated in this way, the argument forgets what many economists usually gesture at, namely, that higher social welfare can create the resources necessary to compensate the losers from free trade. However, this frequent rejoinder, often put forward via appeals to 'compensation policies', can be shown to be largely ineffective. From an empirical point of view, we will see that compensation policies are seldom properly funded, they are subject to various political pressures that distort their intended outcomes, face problems of identification and ultimately do not seem to efficiently compensate workers that have suffered economic dislocation. In addition, and more importantly, compensation policies are bound to fail because the view that they can affect something like 'rectification' flies in the face of descriptive and normative arguments to the effect that work is valued and valuable in more ways than simply as a source income.

Keywords: economic globalization, distributive justice, value pluralism, work.

Introduction

Why should we want economies to become more integrated? The canonical answer from economic theory is that more trade will produce increases in world output since it will allow countries to specialize in the supply of goods and services in which they face a lower opportunity cost in production. This is the idea of comparative advantage. There is no need for a country to be able to produce any good or service more cheaply than any other country for it to gain from trade. The only requirement is that it sticks to the production of those goods and services for which it has to forgo less in the production of other goods and services compared to other countries. This may not be an intuitive way of thinking, but it is one of the most important concepts in economic theory, namely, that the real cost of producing (or purchasing) something is not its money value but the value of what we could have produced (or purchased) instead. Minimize the latter, and you minimize the former, hence the efficiency gain. In a slogan, the real cost of our choices is the value of the choices we haven't made but could have.[1]

In this paper I will argue that this standard 'efficentarian' version of the argument in favor of more economic integration through trade fails both on its own terms and given the background assumptions implied by widely accepted intuitions about distributive justice. It fails on its own terms to the extent that it is presented as a Paretian argument since, as is clear both theoretically and from empirical evidence, economic integration creates winners and losers. Given the distributive effects of economic integration through trade predicted by standard models (such as the Hecksher-Ohlin or factor proportions model) and given the relative distribution of factor endowments between developed and developing countries, the predictable outcome (one that is reasonably confirmed by empirical evidence, see Rodrik 2018) is that workers in developed countries with relatively lower skills and training will be

[1] Most presentations of the gains from trade are based on comparative advantage (static efficiency gains), however, other sources of the gains from trade include technological externalities and economies of scale (Krugman, Obstfeld and Melitz 2018, 52). For a criticism of the insistence on static efficiency see Leoncini (2021). For an excellent overview and critical appraisal see Lepenies (2014, 9).

penalized by trade with developing ones. Those workers will have lower wages, lower lifetime income, they will be more likely to find themselves unemployed and will have fewer opportunities to be gainfully re-employed in occupations that have similar features in terms of pay and conditions compared to the ones they left behind when they were displaced. Thus, from a distributive perspective, in developed countries, those who were relatively worse-off to begin with have been further penalized by the policy choice of deepening economic integration; they paid the price for greater societal prosperity over time, and this is, at least pro-tanto, intuitively unfair.[2]

Of course, stated in this way, the argument forgets what many economists usually gesture at, namely, that higher social welfare can create the resources necessary to compensate the losers from free trade. In a nutshell, when the pie gets bigger, all can be made to benefit.[3] However, this frequent rejoinder, often put forward via appeals to 'compensation policies', can be shown to be largely ineffective. From an empirical point of view, we will see that compensation policies are seldom properly funded, they are subject to various political pressures that distort their intended outcomes, face problems of identification and ultimately do not seem to efficiently compensate workers that have suffered economic dislocation. In addition, and more importantly, compensation policies are bound to fail because the view that they can affect something like 'rectification', that is, returning workers to the status quo ante their dislocation, flies in the face of descriptive and normative arguments to the effect that work is valued and valuable in more ways than simply as a source income since it contributes to human flourishing and to the realization of important political values.

Before moving on, allow me to introduce two important caveats. First, in what follows, I shall understand 'work' as synonymous with paid employment. In so doing, I am fully aware of the fact that this is inaccurate (or rather

[2] Intuitively unfair according to what benchmark? In the paper, I shall assume a broadly Rawlsian approach to distributive justice, but, since the implications of trade integration are also known to increase inequality, they can be also judged as negative from a broader egalitarian perspective. In addition, note that the argument in the paper does not presuppose that trade is a distinct subject of evaluation, hence the 'pro-tanto' qualifier. For a view that sees trade as a distinct social practice see James (2005). For the opposite conclusion see Walton (2020).

[3] For a classic statement see Hicks (1939).

implausible) as a definition of work in general (see Cholbi 2023). After all, housework is work, taking care of people we love is, or at least often is, (hard) work etc. The reason for equating work with paid employment is not, then, to suggest that this is how one ought to define work, rather, it is driven by the specific purposes of this paper: if one is concerned with the distributive effects of international economic integration, then, one is bound to be more closely concerned with the effects on paid employment rather than on a broader (and certainly more accurate) understanding of work. Second, my goal in criticizing efficientarian arguments in favor of more economic integration is adamantly not to suggest that efficiency considerations are irrelevant to public policy decisions. That would clearly be implausible. The point, rather, is to highlight that, when it comes to the implications of economic integration, efficiency considerations should be presented for what they really are (they have distributive effects) and should be tempered by a proper consideration of the relevance that work has, and should have, to most people. Put differently, it is an open question whether we should want to further integrate 'our' economies with the rest of the world, but one thing we should be clear about is that further integration will have costs, not simply benefits, and that it will be very difficult to compensate those who will incur such costs.

1. *Economic integration, the gains from trade, and distribution*

In the basic Ricardian model, one where labor is homogeneous and is the only factor of production, and where workers move effortlessly from one sector to another, trade simply leads to international specialization according to comparative advantage dictated by technological differences, and no one is hurt by trade. Put differently, in the Ricardian view of the world (or, more accurately, how Ricardo's views are usually presented, see Lepenies 2014, 12), countries as a whole benefit from trade (their citizens can consume more) but so do individuals since trade does not really affect the distribution of income to factors.

The real world, however, does not easily fit this rosy Ricardian picture. The usual way in which economists tend to introduce the distributive effects of trade is by developing the so-called 'specific factors' model. In the specific factors model, we have two countries (say, Home and Foreign), two sectors producing one good each (say, a manufacturing sector producing toys and an agricultural sector producing cereals), and three factors of production (labor, capital and land). Labor is still considered homogenous and is the mobile factor (it can seamlessly move from the manufacturing sector to the agricultural sector), but land and capital are 'stuck'. Land can only be employed in the agricultural sector and capital can only be employed in the manufacturing sector.

The model's predictions are relatively clear. Whenever the relative price of toys is higher in Foreign than it is in Home, then, the manufacturing sector in Home will export toys to Foreign. Conversely, if the latter holds, then the relative price of cereals in Foreign is lower than it is in Home and Home will import cereals from Foreign. In this picture, and assuming competitive labor markets, labor within the Home country will be reallocated towards the production of toys and thus diverted from the production of cereals, while the opposite will take place in Foreign. Workers in Home will lose purchasing power in terms of toys (the exported good) and gain purchasing power in terms of cereals (the imported good) with the overall effects on their welfare being ambiguous (depending on their specific preferences and how such preferences interact with changes in the relative price of the two goods they can purchase). However, effects for the owners of capital and land are not ambiguous. Owners of capital in Home, that is those who make toys and export them, will gain in real terms from trade with Foreign, while owners of land in Home, those who suffer from import competition from Foreign, will lose in real terms. The opposite being the case in Foreign. Of course, the assumption of a rigid tie between a factor of production and a specific sector is unrealistic, but it has the merit to illustrate in its starkest form the potential distributional conflict arising from greater economic integration. In addition, the model makes more sense if we think about the short run, that is, when some of the production inputs are fixed.

Note that, in the Ricardian model, we assumed that comparative advantage arose out of differences in production technology that affected labor productivity, yet the model did not allow us to see the distributional consequences of trade. Conversely, the specific factors model was silent when it came to the sources of comparative advantage, yet it predicted very clear distributional outcomes on the bases of differences in relative prices between trading countries. This suggests that the Ricardian model was useful in predicting trade patterns while the specific factors model gave us insights about the implications of such patterns. Both, in addition, suffered from relatively clear structural shortcomings since in the Ricardian model we could only account for the existence of one factor of production while the specific factor model could only make sense in the short run. The question, then, is whether we can construct a model that keeps predictive and distributional information together while at the same time including more than one factor of production and allowing for such factors to be mobile across sectors.

To achieve the latter goals, economists usually introduce the so-called Heckscher-Ohlin model (also known as the factor proportions model). The model's basic version makes the following assumptions. There are two countries (say Home and Foreign), producing two goods (say computers and shoes), employing two homogenous factors of production (capital and labor). Computers are capital intensive in production and shoes are labor intensive in production. Technically this implies that, for *any wage to rental rate of capital ratio* (i.e. the ratio between the price of labor and the price of capital), the ratio of labor to capital employed in shoes production is higher than the one employed in the production of computers. Consumer preferences and technology are assumed to be equal in both countries. We also assume that the Home country is capital abundant and that the Foreign country is labor abundant, which simply means that the capital to labor ratio is higher in Home than it is in Foreign.[4] In this picture, we can predict that the relative price of computers will be lower in Home than it is in Foreign while, conversely, the opposite will be true for shoes.

Since production technologies are identical across the two countries and, relatedly, since the fact that computers are capital intensive in production and shoes are labor intensive in production is not a feature of the country in which they are produced (but of the goods themselves), then, it is natural to present comparative advantage in the model as arising from differences in factor endowments (through their effect on relative prices). Relative factor abundance, and thus the 'locus' of com-

[4] Here, problems with the fixation on static efficiency loom large, for standard trade theory does not seem to contemplate, at least in its basic way of presenting the case for free trade, the fact that a country might wish to develop new kinds of comparative advantages in sectors that, for example, have significant positive externalities for the whole economy. In addition, note that, from a moral point of view, the initial endowments of a country are arbitrary. This creates an interesting link between trade theory and theories of distributive justice (see James 2017).

parative advantage for both countries, can be clearly stated by using two simple inequalities. Home has a comparative advantage in computer production since:

$$\text{(a)}\quad \mathbf{K_H/L_H > K_F/L_F}$$

Conversely, Foreign has a comparative advantage in shoes production since:

$$\text{(b)}\quad \mathbf{L_F/K_F > L_H/K_H}$$

Where $\mathbf{K_H}$ stands for the quantity of capital in home, $\mathbf{L_H}$ stands for the quantity of labor in home, $\mathbf{K_F}$ stands for the quantity of capital in Foreign and $\mathbf{L_F}$ stands for the quantity of labor in Foreign.

Taking the real-world example of two countries such as New Zealand and Bangladesh, we can conjecture that New Zealand has a comparatively small population **(L_N)** and possess comparatively more capital **(K_N)**, while Bangladesh has a comparatively large population **(L_B)**, and comparatively little capital **(K_B)**. In this picture, the Heckscher-Ohlin model suggests that Bangladesh will export manufacturing goods such as shoes (which are usually labor intensive in production) to New Zealand, and that the latter will export manufacturing goods such as computers (which are usually capital intensive in production) to Bangladesh. These results are summarized in Table 1 below.

For the simplest case of a model with two countries, two goods, and two factors of production, the so-called Heckscher-Ohlin Theorem states that "the country that is abundant in a factor exports the good whose production is intensive in that factor" (Krugman, Obstfeld, Melitz 2018, 127). The theorem can be generalized to include several countries, factors of production, and goods, by claiming that "countries tend to export goods whose production is intensive in factors with which the countries are abundantly endowed" (*ibidem*). It is important to highlight that 'abundance' in the Heckscher-Ohlin model is always *relative* abundance, not absolute abundance (in line with the logic of comparative, as opposed to absolute, advantage). In addition, note that, unlike in the Ricardian model, in the factor proportions model trade does not lead to complete specialization (both countries will continue to produce both goods, only the proportion of what they produce will change compared to the pre-trade scenario).

Table 1 • Trade patterns in the factor proportions model

Two countries two goods and two factors	Each has a specific comparative advantage in factor endowments	Each country exports/ imports goods where it has CA
New Zealand (Country 1)	Relatively abundant in capital $K_N/L_N > K_B/L_B$	Exports capital intensive goods (computers) Imports labor intensive goods (shoes)
Bangladesh (Country 2)	Relatively abundant in labor $L_B/K_B > L_N/K_N$	Exports labor intensive goods (shoes) Imports capital intensive goods (computers)

Source: Author

How are these predicted trade patterns linked to the distribution of income to factors of production?[5] The general prediction made by the Heckscher-Ohlin model is that the owners of the abundant factor will see their income rise while the opposite will be the case for the owners of the country's scarce factor (once again, abundance and thus scarcity, being understood in relative terms). The logic underlying this conclusion is relatively simple. If all factors of production must be fully employed after trade occurs (there is no unemployment, and no capital is idle), then, shifting the proportion of goods a country produces means that the re-

[5] A more fine-grained 'prioritarian' analysis would have to try and account for the effects of these price changes on the least advantaged members of society. For example, it is possible that the bottom decile of the income distribution will not be displaced by trade since they might not be part of the formal labor market but that they benefit from lower prices of some tradables (Kapstein 2000, 373-374).

turn to factors also must change. More specifically, if Home exports computers to Foreign and imports shoes from it, and thus produces more computers and less shoes compared to the pre trade equilibrium, it will now have to employ more labor and capital in a sector that 'needs' comparatively less labor for each unit of capital. But this can only occur, in equilibrium and assuming homogeneous labor, if wages go down. By the same logic, we can say that, in Home, the rental rate of capital will go up. Strictly speaking, these are nominal changes, yet it can be shown, by looking at changes in the marginal products of labor and capital that, in Home, real wages go down and the real rental rate of capital will go up (the opposite being the case for Foreign).[6] These effects hold in the long run so long as we keep the model's assumptions in place.

Further assuming, as it is plausible, that developed countries are capital abundant, and that developing ones are labor abundant, the implications of the model are relatively easy to gauge, namely, we should see income to labor falling in rich countries and rising in poorer ones, while the opposite should occur to income accruing to (owners of) capital. Mutatis mutandis, the same logic suggests that, in developed countries, low skilled workers will be penalized while highly skilled workers will tend to gain from trade with developing ones. To see why, we only need to assume, plausibly, that labor is not homogenous and that highly skilled workers tend to be disproportionately employed in the in the production of goods and services that require comparatively higher capital to labor ratios to make/offer. Dropping the assumption that labor is homogeneous, then, suggests that the effects of trade on real wages are not the same in all sectors. Instead, they depend on the fact that low skilled and highly skilled workers are not easily substitutable and tend to work disproportionately in different parts of the economy. Highly skilled workers tend to make or create goods (and offer services) that are capital intensive in production and thus benefit from being able to export to developing countries while low skilled workers tend to make goods that are

[6] The reason why we should care about real as opposed to nominal changes is that by only knowing nominal changes we cannot establish actual distributive effects since, in both countries, because of trade, the relative prices of what workers and owners of capital can buy with their nominal returns (computers and shoes), move in opposite directions.

labor intensive in production and thus suffer from import competition from the developing world.

Before moving forward, a word of caution is in order. It is important to stress that the discussion in this part of the paper should be understood, much like the presentation of the Heckscher-Ohlin model, to have heuristic value; its purpose is to provide the reader with an informal understanding of the potential distributional effects of economic integration. To illustrate, the reasons that have led to a large increase in the college wage premium in developed economies over the past few decades and thus that explain the rise in wage inequality between more educated and less educated workers, are multiple and the empirical literature on the matter is highly complex. Overall, we can say that trade, technological change, and institutional developments (such as the decline in unionization), are widely accepted as some of the main contributing factors in explaining rising within country wage inequality in developed economies (see Helpman 2011). What is much more contentious is the relative weight of these contributing factors. Things become even more complex to disentangle once we recognize that there is at least some degree of interdependence between all three: trade might affect the choice of production technology employed by a firm, while the possibility of outsourcing the production of goods and services may put pressure on institutional protections provided by minimum wage legislation and unions, to cite but two possible forms of interaction (Acemoglu 2002).

That being said, most economists recognize that trade and economic integration do have some effects on wage inequality within countries and that such effects, within more developed economies, are relatively clear and in line with the factor proportion model we have briefly discussed so far (Rodrik 2018). And this implies that, to the extent that deepening economic integration is itself and institutional choice (trade policy exists – free trade is not a natural phenomenon any more than markets are), such choice is clearly in contrast with widespread intuitions about distributive justice. If we assume that more educated workers are better off to begin with, then, the deepening of economic integration it will tend to depress the economic prospects of those who are already relatively worse off to begin with: workers with comparatively lower levels of skills will see their wage stagnate or decline, they will be more likely to be economically displaced (i.e. lose their jobs), and will likely face relatively long spells of unemployment and related losses to their well-being. And this seems, at least pro-tanto, intuitively unfair according to a broadly Rawlsian perspective: those who are relatively worse off to begin with are asked to pay the brunt of the adjustment costs required for greater overall economic prosperity.[7]

Empirical evidence for this conclusion can be provided by looking at the so-called 'China shock' to US manufacturing. The rise of China in economic terms has been largely driven by the development of its manufacturing sector leading the growth of the country's exports. The share of world manufacturing value added captured by China grew six-fold between 1991 and 2012 going from 4.1% to 24% (Autor 2018, 6). A similar growth pattern can be observed for the Chinese share of global manufacturing exports, which went from roughly 3% to 18% in the same period. Given the relative economic isolation of China before 1991, and given the size of Chinese exports, it is natural to think of the growth in China's manufacturing as a form of supply shock for its trading partners. The effects of this supply shock have been shown to be sizable and highly concentrated, and they affect not only wages but also employment levels. In Autor's words:

> Summing over both aggregate demand and reallocation effects and considering both those industries that are directly exposed to import competition and those that are indirectly exposed via input–output linkages, […] import growth from China between 1999 and 2011 led to an employment reduction of 2.4 million workers. There is little evidence to suggest, however, that employment gains in non-exposed local industries substantially offset these losses. Indeed, the estimated employment decline is actually larger than the 2.0 million job loss estimate when considering only direct and input–output effects […] Trade shocks impact more than just the employment margin in labor markets. Workers in trade-exposed CZs[8] experience larger reductions

[7] In addition, note that economic harm, to use DeMartino's terminology, tends to breed more economic harm, so that the initial cost of being economically displaced tends to be reinforced over time (see DeMartino 2016, 75).

[8] CZs stands for 'commuting zones' defined as follows "A commuting zone (CZ) is a geographic area used in population and economic analysis. Rather than being set by official boundaries of states, counties, or metropolitan areas, CZs are constructed using data on people's actual commuting patterns. Specifically,

> in average weekly wages, and these impacts are concentrated among workers in the bottom four wage deciles. Thus, while trade theory has typically emphasized the wage impacts of trade shocks, analysis finds that adjustments at the employment margin might have an even larger quantitative impact on workers' earnings (*ibidem*, 7).

Similarly, and this time focusing more explicitly on the distribution of the costs of adjustment between different groups of workers, Autor, Dorn, Hanson, Song (2014) find that:

> Individuals who in 1991 worked in manufacturing industries that experienced high subsequent import growth garner lower cumulative earnings, face elevated risk of obtaining public disability benefits, and spend less time working for their initial employers, less time in their initial two-digit manufacturing industries, and more time working elsewhere in manufacturing and outside of manufacturing. Earnings losses are larger for individuals with low initial wages, low initial tenure, and low attachment to the labor force. Low-wage workers churn primarily among manufacturing sectors, where they are repeatedly exposed to subsequent trade shocks. High-wage workers are better able to move across employers with minimal earnings losses and are more likely to move out of manufacturing conditional on separation. These findings reveal that import shocks impose substantial labor adjustment costs that are highly unevenly distributed across workers according to their skill levels and conditions of employment in the pre-shock period (*ibidem*, 1799).

2. *Efficiency, net gains and compensation*

To be fair to the economics profession it should be made clear that its members are perfectly aware of the distributive effects of economic integration through trade. Trade tends to affect relative prices, and this will have very visible welfare implications even in the absence of a sophisticated model: to illustrate, a rise in the global demand for, say, corn, will

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a CZ is a set of contiguous US counties containing at least 100,000 residents where: (i) the centroid of the county cluster is commutable from its outskirts; and (ii) most people who live in the county cluster also work there." (Autor 2018 6, cited above).

increase the income (and, normally, the welfare) of corn producers in a corn-exporting country and, other things being equal, reduce the welfare of corn consumers in that same country. Thus, the argument in favor of free trade and deeper integration cannot, and usually does not, rely on the assumption that the policy in question will make everyone better off. At best, one can say something about aggregate welfare, the nature of market economies, and the potential for government policies to compensate those who are made worse-off. And, by and large, this is exactly what those who defend further integration on efficiency grounds tend to maintain. Not implausibly, and yet, as we shall see, controversially, they will argue that further integration allows the economic pie, and thus presumably aggregate social welfare, to rise, that all economic changes in a market economy (driven by, say, changes in consumer preferences and technological innovation) not just ones affected by trade policy create winners and losers, and that it is more efficient to compensate the losers than it is not to create winners and losers in the first place. These arguments are not, I should emphasize, necessarily incorrect. However, they tend to be presented as relatively innocuous from a normative point of view while it is, instead, relatively clear that they aren't.[9]

To begin with, to say that anything that increases aggregate welfare is socially desirable is debatable (many would go as far as saying implausible). To wit, one needs to presuppose a purely welfare consequentialist framework and, inter alia, this would have the less than attractive property of being insensitive to distribution (see Buchanan 1985, 9-13). Something most theories or conceptions of justice would flatly reject. Second, note that the assumption that growing the economic pie

[9] My discussion partly follows from Aaron James's principle of 'collective due care' (2012, 17). The principle states that "[…] trading nations are to protect people against the harms of trade (either by temporary trade barriers or "safeguards", or, under free trade, by direct compensation or social insurance schemes). Specifically, no person's life prospects are to be worse than they would have been had his or her society been a closed society" (*ibidem*). While I agree with James's general statement of the problem, part of my argument in the paper is that there is no obvious equivalence between temporary trade barriers and safeguards on the one hand and compensation or social insurance schemes on the other.

leads to higher social welfare is itself not uncontroversial. For, while we can observe changes in aggregate (real) income, we do not observe the changes in welfare that result from the higher real income, but the welfare effects are bound to be, at least to some extent, affected by how the greater available income is distributed (Little 1957).[10] A thousand dollars less for a someone in the last decile of the income distribution coupled with three thousand more for a billionaire are unlikely to drive up social welfare given the diminishing marginal utility of money. That few large-scale economic changes have such a stark distributive profile is not a reason to ignore the theoretically missing link between economic resources and their effects on aggregate social welfare, namely, that the distribution of the former will affect changes in the latter. Third, while it is correct to point out that markets consistently reallocate resources through the price mechanism and that the latter can, and usually is, affected by a host of reasons, this observation seems relatively inconsequential. It seems to suggest, disingenuously, that questioning any of the ways in which markets affect distribution means to reject the market mechanism altogether. And that is patently false since most countries on the planet who use markets for the organization of economic activity also tend to mitigate their distributive implications through government actions of various kinds. Perhaps economic integration is not 'special', but this fact, per se, does not make it any less controversial.

Finally, the way in which the idea of compensating the losers from economic integration is presented is, at best, naïve. What we can call the 'compensation argument' starts from the observation that, overall, greater economic integration through trade is efficiency enhancing. The

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[10] In Little's words "It seems improbable that many people would […] be prepared to say that a change, which, for instance, made the rich so much richer that they could (but would not) overcompensate the poor, who were made poorer, would necessarily increase the welfare of the community. Admittedly people might be prepared to say that such a change would increase aggregate real income, so long as the proviso was always added that it would probably decrease welfare. If this proviso were added, the suggestive force of the first half of the sentence would be offset, or more than offset, by the second half" (1957, 90). See also DeMartino (2016, 86-87) for the hypothesis that being a loser today may be serially correlated to being a loser in the future.

problem is that, as we have seen, unless very special assumptions are made, trade has distributive implications and thus the traditional reference to Pareto efficiency will be unavailable.[11] Very few, if any, policies in the real world can be considered strict Pareto improvements on the status quo ante the policy has been introduced and trade policy is no exception. A Pareto improvement is a change in the way resources are allocated that makes no one worse off and at least someone better off. Basically, a 'no losers' criterion; a criterion that clearly does not apply to our present concerns. A much more plausible, and as we shall see far more controversial, idea is provided by the Kaldor-Hicks (K-H) version of the Pareto principle. The K-H criterion states that a state of affairs B is K-H superior to state of affairs A when those who win as a result of the passage from A to B could potentially compensate the losers and still be (at least one of them) better off than they were before. K-H improvements are often called Pareto potential improvements for the simple reason that the availability of more resources makes it possible, at least theoretically, to rearrange resources after the fact so that we can recreate a state of affairs where no one loses through the reallocation of the gains which have been obtained.

The word 'potential' in Pareto potential is, however, key and provides an initial hint of what might be the problem in considering a K-H improvement as, ipso facto, socially desirable (see Driskill 2012). The crucial element in the idea of a K-H improvement is the notion of compensation. Three questions arise at this juncture. Two of them are relatively familiar, the third less so. Or at least less familiar within the standard contours within which the distributive effects of economic integration are normally discussed.

First, will the winners actually, as opposed to potentially, compensate the losers? Compensation can be politically unfeasible. Yet, clearly, the moral assessment of any policy cannot rely on the fact that the existence

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[11] Making very special assumptions is not, per se, something that disqualifies an economic model (see Reiss 2013, ch. 7), yet, such assumptions, coupled with the lack of any resemblance to the effects of trade (which are emphatically distributive) on real economies are enough to provide some pause when one attaches normative or evaluative judgments of some kind to models that rely on those assumptions.

of an aggregate net gain *could*, or even *should*, allow for compensation, for it is the presence or absence of *actual* compensation that is bound to matter (Driskill 2012). No one, after all, would claim that the fact that they *could* donate more money to a charitable organization because of, say, a higher salary should be portrayed as a moral improvement and thus as a justification for the higher salary.

Second, is it possible to (efficiently) compensate the losers, even if we assume that we are determined, and politically able, to do so (see Laincz, Matschke and Yotov 2021, 762-763)? The losers are often hard to find, or difficult to target via general policies. The problem is not so much identifying those who *will tend to gain or lose* from greater economic integration. The problem is the level of precision that we can obtain coupled with the kind of claim that we are trying to put forward about a given policy choice that purports to create net gains. No government policy action can individuate and compensate *all* those who are negatively affected by a change in economic circumstances. At best, what we can hope for is that, if we have a relatively clear picture of those who are negatively affected by an economic change then we can try to compensate some, perhaps even most, of the losers. Perhaps, we can make those losers *as a class* better off than they would otherwise be through compensatory actions (Tesón 2012). Yet, it is still going to be the case that some of those who have lost will not be compensated and thus that a K-H improvement will not, and in fact most likely cannot, be transformed into an actual, as opposed to potential, Pareto improvement. This implies that, whether the policy generating the net gain is morally justifiable or not, its justification cannot, strictly speaking, rely on the absence of losers. To be very clear, the fact that some lose, and others gain from a policy choice does not, emphatically not, entail that the policy is ipso facto unjustifiable. Rather, it entails that some forms of justification are unavailable, namely, justifications that present the policy change in question as distributionally innocuous.[12]

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[12] Note also that my arguments are not meant to suggest that any Pareto improvement should be considered ipso facto morally justifiable. Clearly that is not the case. To illustrate, many would balk at the idea that making the rich, say the top 0.1% of the income distribution, much richer than they currently are without improving the circumstances of those at the bottom of the income

In addition, it is important to stress that, even in the unlikely event that we could identify and target every loser from an economic change, a K-H improvement ought to be judged as such *after* the compensation policy has been deployed. This is important because setting up a policy to compensate losers is bound to have some direct and indirect costs. Among the direct costs we can cite the creation or the enlargement of government bureaucracies. Indirect costs might materialize if the compensation policy has unintended implications, for example, negative incentive effects (i.e., people may be tempted to exaggerate their losses or mischaracterize their source).[13] Finally, note that the latter problem is likely to become particularly poignant in cases where the effects of a policy choice create increasingly larger distributive effects and increasingly smaller efficiency gains. And this is precisely what seems to be the case for further trade liberalization once an economy is already relatively open since "reducing a tariff that is half the size creates a gain at the margin that is only a quarter as large" while "the distributive effects… are roughly linear in relative price changes and do not depend on the magnitude of the tax" (see Rodrik 2021, 2). Put differently, if a country starts from a relatively low level of protection, further liberalization will dramatically increase the ratio between economic dislocation and efficiency gains, and this is bound to make efficient compensation very difficult to obtain.

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distribution ought to be considered as a moral improvement (see Sen 1987, 31-38). In addition, a Pareto improvement may be legitimately resisted if what brought about it was not consented to by those who are affected, for example, on grounds of anti-paternalism (Buchanan 1985, 10).

[13] A potential rejoinder to this kind of criticism is that no actual compensation is required because, in the long run, if all K-H improvement are allowed in an economic system, all are bound to benefit at some point and all will, eventually, end up being better off as a result (see Samuelson 1981, 227). The argument at best, however, betrays a great deal of faith in a rosier future than seems to be rationally warranted. For, as Little has argued "some of the changes which might pass the Kaldor-Hicks's criterion […] will have quite significant real income distribution effects, so that it would be, at best, wishful thinking to suppose that they would cancel out with the effects of other changes. There does not seem to be any justification for saying that there would be a strong probability that almost everyone would be better off in the end […]" (1957, 94).

Do we have any empirical confirmation on whether the aforementioned problems affect compensation policies connected to international economic integration? Here too, while complex, the overall evidence from selected cases is relatively stable and relatively negative. As an illustration, consider the Trade Adjustment Assistance (TAA) program in the US. The TAA program in the US has a long history. First established in 1962, it has been amended and expanded several times since then, most recently in 2009 through the American Recovery and Reinvestment Act. Though often unstated, the basic political rational for the program is to diminish political resistance to trade liberalization. From a more systemic perspective, we can say that programs such as TAA are part of what John Ruggie famously called 'embedded liberalism', namely, part of a grand bargain in which losers are offered something in return for their lack of resistance toward the current international economic order within the domestic political context of modern welfare states (see Park 2012). What kind of compensation (broadly construed) is offered by the program? And what are its effects on workers? The program has a dual structure which includes both direct forms of monetary compensation and re-training opportunities for displaced workers to help them transition to new forms of employment. The benefits of TAA are available through five distinct policy tools, namely, income support, allowances for relocating to a different part of the country, re-training opportunities, job search allowances, and a tax credit for health insurance paying 65% of the premium for selected health insurance plans.

Empirical evidence on the effectiveness, or lack thereof, of TAA is limited. In part, this is due to lack of data. Some of the relatively recent investigations of the program's performance have come from the U.S. General Accounting Office (GAO, 2001). Perhaps the most comprehensive review of the empirical data dates back to 2012 (Reynolds, Palatucci, 2012). The authors' overall conclusions are as follows:

> Summary statistics indicate that TAA beneficiaries have a much harder time finding new, well-paying jobs when compared to other displaced workers. […] TAA beneficiaries tend to be older and less educated than other workers, thus they have a harder time reentering a workforce that increasingly requires more skills and training. These facts suggest that there may be an important role for the TAA program to play in helping those workers most at risk following displacement. Unfortunately, we find no statistical evidence that the

> TAA program improves the average employment outcome of beneficiaries over a comparison group of nonbeneficiary displaced workers with characteristics similar to those workers in the TAA program. Our results imply that while the TAA program may provide an income safety net, it does not help the average displaced worker who is enrolled in the program find new, well-paying employment opportunities. […] Upon further examination, however, we find strong evidence that those workers who participate in a TAA-funded training opportunity are more likely to obtain reemployment, and at higher wages, when compared to the TAA beneficiaries who do not participate in training (2011, 58).

Once again, it is important to discuss the way in which these kinds of empirical results add to the overall argument that is being put forward. The effectiveness of TAA is limited by targeting problems, by funding levels and by the political wrangling that often accompanies eligibility and certification. In addition, even when we bracket these problems, and concentrate on those who participate to TAA, the impact of the policy tool seems to be, at best, very limited. This suggests that, even if one considered employment simply as a source of income (something I shall, shortly, deny), then compensation policies within the most advanced and large economy in the world are ineffective on their own terms.

Third, and most importantly, would *morally equivalent compensation* be available to those who are displaced by economic integration? Morally equivalent meaning what? For now, I shall limit myself to offering an example. Imagine you purchase home insurance. Alas, an accident occurs, and your home is destroyed. The place where you grew up doesn't exist anymore. The insurance company pays compensation. You receive the full present market value of your house. Have you been compensated? Yes, of course, in one way. Is the compensation equivalent to your loss? Probably not. Now, this might be because your subjective (economic) valuation of the house is far higher than its current market price. Yet I suspect that this is not the only reason for not feeling fully compensated. I suspect that part of the problem lies in the fact that the way you value your house, and the way money has value to you are different. Something of value has been lost and is unlikely to be fully compensated by money. Monetary compensation, we might intuitively conclude, is morally non-equivalent.

3. *The value(s) of work and compensation*

One way to formalize this intuition is to adopt some form of commitment to value pluralism. I shall follow Elizabeth Anderson's pluralist theory of value in her *Value in Ethics and Economics* (1993). Rather than defending her views as strictly speaking correct, my purpose is to show how a theory with the general features of Anderson's one can allow us to make sense (i.e. it can account for it in more depth) of incomplete commodification as a social practice. Anderson's theory is pluralist in four different ways (*ibidem*, 14). First, it allows for a plurality of contestable ideals providing guidance in "the development of our attitudes, character, values, and aspirations" (*ibidem*, 14). Second, it accepts the existence of a plurality of goods which it makes sense to regard as bearers of value. Third, it recognizes more than one value or standard according to which we can evaluate bearers of value and how it would be appropriate to relate to them (such as beauty, convenience, loyalty etc.). Finally, it suggests that there is more than one kind of evaluative attitude we can adopt vis à vis bearers of value.

Two additional comments are important. To begin with, the last dimension of Anderson's pluralism is particularly noteworthy for it suggests that one key element in a non-monistic approach is to accept a variety of different ways of valuing or disvaluing things: to use, respect, consider, appreciate, love, honor, admire, revere or tolerate, and conversely, to shun, humiliate, mock, despise, ignore or desecrate are all potentially appropriate modes of valuation (*ibidem*, 10). In addition, Anderson insists that different modes of valuation may be appropriate for the very same good or bearer of value (though they may be incompatible) so that, for example, a beautiful landscape might be properly used and appreciated (*ibidem*, 14). Going back to the insurance example briefly outlined above we could thus suggest that, for most people, their dwellings are something they both 'use' and 'love': we use the house and love the home yet these descriptions clearly refer to the very same physical object.

The co-existence of these two different modes of valuation suggests a specific interpretation of why the insurance payment can only offer partial (or morally non-equivalent in the language I have adopted above) compensation. The house puts a roof over our heads, it is useful or has use-value. It, the house-as-roof-over-our-head, "merit[s] a particular mode of valuation" for it meets a specific standard of value, namely, convenience (*ibidem*, 11). We show or express this mode of valuation, 'use', by "engaging in prudential calculation" and we often connect this prudential deliberative attitude to money (*ibidem*, 9): buying or selling at a low/high price, renovating to increase market value, selecting a specific location as a good investment etc. Yet the same good is also, or becomes, over time, a home: something we love. Bearers of value that merit love as a mode of evaluation cannot simply have use value and the ways we deliberate about something we (also) love are not the same as the ones we would use for something that we find (merely) useful. In short, when we receive money from the insurance company, then it is the loss of what is of use that is compensated for by money, since money is (paradigmatically, in modern economic systems), something that has use value. Yet, the money received does not compensate for the loss of something we love, or at least it does not prima facie seem to.

Something similar, I believe, applies to work. To begin with, note that, in most modern political communities, the depth of labor commodification is limited by social policies. This idea has been elegantly formalized by Margaret Radin (1996, ch. 7). According to Radin, in most societies, some goods are only incompletely commodified. At least two kinds of incomplete commodification can be observed. The first occurs when commodified and non-commodified understandings of a given good co-exist side by side in crystallized form. Put differently, some believe that it is appropriate to treat a given good as fully commodified, while others reject its commodification altogether. Radin offers the example of compensation for personal injury, but some may wish to put forward sex as a case in point. This kind of dichotomic crystallization, according to Radin, should be thought of as external to persons. External in the sense that commodified and non-commodified understandings of a good are not held by the same people: some see it one way, others in the opposite one. Alternatively, for some goods, the commodified and non-commodified understandings of a good can co-exist within the very same people. She provides the example of works of art. The very same person might believe that a painting is priceless, but have it appraised for insurance purposes. And, when such an understanding of the meaning(s) of a good is widespread, then, we tend to see it as reflected in social policies, namely, in policies that, as we have seen above in the case of labor law, limit the depth of marketization of the good in question. Radin then goes on to present housing, but even more poignantly given our present concerns, work, as paradigmatic cases.

Now, the obvious question one is bound to pose is what explains and/or justifies that being so. What is it about a given good, and more specifically, given our purposes here, what is it about work, that explains and/or justifies its being treated by our societies as incompletely commodified? I use the expression 'explains and/or justifies' in the question because, from a philosophical perspective, the two verbs play crucially different roles. At least four alternatives are worth mentioning. First, the most direct explanatory structure of why work is incompletely commodified might refer to, descriptively, the beliefs about work and its value that actual people tend to share. Most notably, beliefs about the fact that work is valuable in more, and different, ways than simply as a source of income. Second, we might resort to a normative understanding of the phenomenon. Here, we could say that there is a justification for incomplete commodification because work is appropriately (justifiably) understood as having value in more ways than simply as a source of income.

One might be tempted to end this analytical excursus here, but that would be too quick, and this is because, when and if we value something like a good or a practice, we do not necessarily value it in all its forms. To illustrate, paintings or musical performances may or may not have artistic value; this is likely to depend on the way we evaluate them according to the standards of evaluation that are appropriate to the kinds of values that such paintings or musical performance ought to embody or express. Mutatis mutandis, the same could apply to work. And this provides a counterfactual alternative to both the simple descriptive explanatory structure and the normative structure just outlined. For it might be the case that people would believe that work is valuable in more ways than simply as a source of income if work environments and work generally were of the right kind, or that work would in fact, normatively speaking, be valuable in more ways than simply as a source of income if work environments and work generally were of the right kind (for normative conceptions of good work see Hsieh 2005; Gomberg 2007; Kandiyali 2020, 571).

Table 2 • Explanatory and normative structure of incomplete commodification

	Actual conditions	Counterfactual conditions
Descriptive	Most workers value work in ways that are not reducible to it being a source of income	Most workers would value work in ways that are not reducible to it being a source of income, if work environments and work more generally were organized in a different way
Justificatory	Work is appropriately valued in ways that are not reducible to it being a source of income	The normative appropriateness of valuing work in ways that are not reducible to it being a source of income would be *enhanced* if work environments and work more generally were organized in a different way

Source: Author

What then is the nature and structure of the claim that provides the best answer to the question pertaining to the source of the incomplete commodification of work? The answer, I believe, is a complex one and is likely to feature a mix of overlapping considerations about the way work is valued and valuable to persons. The precise architecture of such a mix will, in the end, depend on both empirical evidence, conjecture, and the specific account of good, just or unalienated work one has in mind. First, descriptively, people tend to value work in ways that cannot be reduced to it being a source of income even in the current state of the world (i.e., even considering how work is currently organized and performed rather than how work ought to be given, for example, one or more of the accounts mentioned above). This can be easily observed by looking at the correlation between unemployment and the worsening of mental health and/or reported welfare. Surely enough we cannot deduce some form of value pluralism concerning work from empirical evidence about the welfare implications of unemployment, but the explanatory structure of the link between unemployment and its implications for well-being usually refer to more than the loss of an income stream. To wit, there is now considerable empirical evidence that work has an impact on individual well-being. More specifically, what we tend to see is a strong association between unemployment and significant losses to people's psychological health:

> […] substantial amount of research, dating back to the Great Depression, has focused on the impact of unemployment on individual well-being. This research suggests that being unemployed may result in a range of stress-related consequences for the individual including depression, anxiety, physical ailments such as stomachaches and headaches, and even suicide. The negative effects of unemployment on psychological well-being have been explained through a variety of theories. Perhaps the most influential theory has been Jahoda's […] latent deprivation model. Jahoda proposed that employment provides both manifest (e.g., income) and latent (e.g., time structure, social contact, sharing of common goals, status, and activity) benefits to the individual. While unemployed, individuals are deprived of these benefits and thus experience lower psychological health (Wanberg 2012, 370-371).

This kind of finding is generally robust across different specifications of what well-being stands for (see also Gedikli *et al.* 2022).

Second, it is highly likely that, if people value work in the way it is currently organized and performed in our societies, then, a fortiori, they would value it even more if work environments and work more generally were to conform to normative standards. Since the world as it is clearly very different from the counterfactual scenario, and given the descriptive nature of the claim, this is by far the least interesting version of the argument.

Third, people's beliefs are normatively appropriate, that is correct, since there are good reasons to value work in a plural way since work is often the 'locus' where persons have the opportunity to develop critical elements of their own conceptions of the good and, relatedly, the opportunity, as citizens, to pursue important political values. This last point is worth emphasizing. Many have argued that work is central to a range of plausible accounts of human flourishing (see Veltman 2016, 4-9). I believe the contention is plausible but will not further pursue it here. The problem with such arguments is that building one's defense of the significance of work on a purely ethical view of human flourishing might invite the objection that what is being presented is simply a 'sectarian' or 'comprehensive' view of the good; one, that is, incompatible with what Rawls called the fact of reasonable pluralism. To wit, some may sincerely build their own conception of the good, and their personal path to flourishing, without considering work to be central. There are, in my view, at least two points worth making in replying to this objection. The first is that even if the objection is correct, it is still the case that many people do see their flourishing as connected to work, and do so by understanding the values of work to be plural in kind, and thus that the claim that losing one's job cannot be fully compensated via money transfers is likely to be accurate for many, if not most, people. What would be less clear, of course, is the public relevance of this lack of equivalence. In other words, it would not be entirely clear why and in what way, public policies and institutions ought to take into account the ethical relevance of work to some people at the potential expense of greater societal prosperity.

Yet, the significance of work need not be confined to its potential contribution to a person's flourishing, for the value(s) of work can also be more political, that is, connected to our public understanding of a well-ordered and just society (see Honneth 2023). Though there may be more, I'd like to highlight one way in which work has an important moral political dimension. The basic idea is that work is connected to our sense of self-respect because it might partly determine our ability to feel, and be recognized as, fully cooperating members of society. One way to arrive at that conclusion is inspired by the Rawlsian connection between meaningful work and the social bases of self-respect. Rawls's account of the social bases of self-respect is notoriously underdeveloped, and yet their importance is clear insofar as Rawls himself saw such bases as one, if not the most, important among the primary goods (*ibidem*, 440). Following Moriarty (*ibidem*, 443), we should emphasize that, for Rawls, the salient primary good is not our personal and reflective sense of self-respect (i.e. the attitude toward ourselves), but the social bases of such attitude. Rawls defines the social bases of self-respect as the "…aspects of basic institutions that are normally essential if citizens are to have a lively sense of their own worth as moral persons" (*ibidem*, 256). In later writings, Rawls adds the claim that the absence of opportunities for what he calls meaningful work undermines citizens' self-respect and, as Moriarty correctly implies (*ibidem*, 446), it is then clear that meaningful work ought to be taken as one of the social bases of self-respect if its absence is normally destructive of self-respect.

Why is the absence of meaningful work destructive of a person's self-respect? Rawls insists on the fact that it is lack of *meaningful* work that affects one's self-respect, but we can perhaps cast a wider net (see Moriarty 2009, 451). For, there seems to be a connection between having the opportunity for 'socially necessary' (as opposed to just 'meaningful') work and the social bases of self-respect. We might say that by working every worker plays her or his part in social cooperation; they perform their fair share and can be recognized by others as doing so. In other words, by working we contribute, when we contribute, we do our fair share, and the recognition by others that we are doing our fair share is a key component of our self-respect for it basically is a recognition of the fact that we are, to use Rawls's terminology, fully cooperating members of society. Thus, the opportunity for socially necessary work is tantamount to an opportunity to see our status recognized by others.[14]

Fourth, and finally, the normative appropriateness of valuing work in a plural way would be *enhanced* if work environments and work more generally were improved along the lines of one or more of the views of good, just or unalienated work we briefly discussed. And this is because at least some, yet not all, of the ways in which we appropriately, normatively speaking, value work are bound to be parametric; they are bound to be dependent on what kind of work it is and on which terms it is performed. The word 'enhanced' is however crucial. That 'better work' would be more valuable from a normative point of view does not necessarily make imperfect versions of work we currently experience non-valuable.[15]

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[14] For a similar view see Jesse Von Platz. He writes "Since democratic equality is an ideal of working together as free and equal persons, economic agency (the working together part) is as important as political and ethical agency. It is by exercising the powers of economic agency that citizens participate in social cooperation (carry burdens) and thereby acquire their claim to a fair share of the product (the benefits). Social democracy, accordingly, maintains that the first principle of justice should enable and protect the development and exercise of the powers of economic agency (the capacity for working) as much as the powers of ethical and political agency. Since all should engage in socially meaningful work, all citizens should be able to develop and exercise the powers engaged in socially meaningful work – the powers of economic agency" (2020, 23).

[15] Of course, it is possible to imagine a different counterfactual version of the justification of the incomplete commodification of work, namely, that only specific kinds

Conclusion

In this paper, I have critically assessed the claim that deepening economic integration is socially desirable because it enhances aggregate welfare and in so doing harbors the potential for making everyone better off than they would otherwise have been. My discussion centered on the claim that economic integration produces net gains, so that those who lose from it can be compensated by those who are made better off. I have argued that compensation might be politically impossible, that its targeting efforts might be distorted by the rent-seeking behavior, and that it might dissipate the net gains from trade because of the costs associated to government interventions and potentially negative incentive effects. Finally, I have also elaborated on the idea that, in some circumstances, economic compensation for a given loss might not be a morally equivalent form of compensation for the loss incurred. When it comes to the effects of trade on employment, compensation policies are bound to fail because the view that they can affect something like 'rectification' runs counter both descriptive and normative arguments to the effect that work is valued and valuable in more ways than simply as a source income since it contributes to human flourishing and to the realization of important political values.

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of work would be valuable in a plural way. I do not consider this possibility because it seems unlikely that the values of work are tied to an 'all-or-nothing' view of the features that 'good' work ought to possess.

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