

The Free Trade Debate: 221 Years Running

by Robert F. Graboyes
Federal Reserve Bank of Richmond
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Economists, famous for disagreeing with one another, are overwhelmingly in favor of free trade—at least in most circumstances. Beginning in 1776 with Adam Smith's *The Wealth of Nations*, many of the greatest works of economics have defended the flow of goods and services across international borders. The economist Frank Taussig wrote in 1905, "...the doctrine of free trade, however widely rejected in the world of politics, holds its own in the sphere of the intellect."

Two centuries and a couple of decades haven't been enough to negate either the political rejection or the intellectual acceptance of free trade. The contest between free trade and protectionism is probably permanent. The world is still rife with tariffs and quotas that discourage or prohibit trade. Sometimes the means are more subtle: e.g., "You are free to import that fresh beef, but first, we'll need to make sure it's sanitary. We'll have it back to you in three or four weeks." All in all, though, the postwar years have been pretty good ones for the cause of free trade.

Trade and History

The alternating waves of trade liberalization and protectionism profoundly affect the course of history.

Before the Civil War, a tariff protected U.S. textile firms from British competition. This tariff, however, raised textile prices and, in turn, reduced the demand for Southern cotton. While the slavery issue eventually obscured the trade issue, some historians believe the tariff was a principal cause of the North-South division and motive for secession.

World commerce spiraled into a trade war in the 1920s and 1930s. One nation would impose tariffs or quotas, another would retaliate, and trade dissolved away. Economists disagree over how much this trade war deepened and lengthened the Great Depression, but they generally agree that protectionism contributed to the crisis.

After World War II, the Allies freed up their trade with one another, and their economies boomed. In contrast, Third World countries—many of them newly independent—closed their borders to trade (or continued to do so) and sank into prolonged stagnation. In the 1980s and 1990s, protectionism and dictatorship simultaneously fell by the wayside in dozens of nations, replaced by freer trade, freer politics, and impressive gains in material wealth.

Why Trade?

Nations trade for the same reason that households trade—because both sides benefit. There are many reasons why trade might occur, including:

Technological superiority/Absolute advantage: Americans long purchased Swiss watches because the Swiss were believed to make the best watches in the world. Similarly, Mr. Thompson hires a plumber

rather than do the job himself; the plumber ends up with more money, and Mr. Thompson ends up with a better sink.

Comparative advantage: Americans buy some clothing from the Far East, even though America may boast technological superiority in clothing manufacture. This is because the U.S. can put its scarce capital and labor to uses with higher returns. Similarly, Dr. Gonzalez buys an \$1,200 maple cabinet, though she is a skilled cabinetmaker. She does so because performing surgery earns her \$300 an hour, and the cabinet would take far more than 4 hours to make. (Her leisure time is scarce, too.)

Resource endowment: Jamaica might buy cod from Iceland, and Iceland might buy sugar from Jamaica—even if Jamaicans fish as well as Icelanders, and Icelanders cultivate crops as well as Jamaicans. Obviously, climatic reasons inspire this trade pattern. Similarly, Farmer Jones buys tomatoes from Farmer Smith, and Farmer Smith buys lumber from Farmer Jones, even though both are equally adept at growing trees and tomatoes. Why? Jones's farm is covered with trees ready for harvest, and Smith's is a treeless tract with ideal soil for growing vegetables.

Why the Controversy?

If economists are so sure of the virtues of free trade, why do they have so much difficulty swaying public opinion toward their view? A common explanation is that with free trade, the losers are concentrated and identifiable, while the winners are scattered and unidentifiable. It's easy to point a camera at the widget factory that a tariff saves from foreign competition, and it is easy to interview the workers at that plant. It is far harder to interview (1) the consumers who must pay higher widget prices or stop buying widgets altogether, (2) the widget salespeople who lose their jobs because higher prices stifle demand, or (3) the retail stores where those salespeople used to buy their clothes, or (4) the grocery stores where those retailers have cut their purchases, and on and on.

The difficulty in explaining the virtues of free trade recalls the words of Henry Hazlitt: "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."