Free Trade

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A masterpiece of economic writing, Henry George's *Protection or Free Trade* (1886) shows the folly of trying to serve the public by political (governmental) obstruction to voluntary, free choice in international trade. The central truth had been explained long before, but there was strong opposition to recognizing it—in his day and even now, a century later. Why? Because particular groups will say, in effect, "We can get politicians (government) to force others to pay more for our products." The many can be coerced into suffering for the few, with net loss for society as a whole.

The division of labor, specialization, and exchange have permitted human beings to advance from barbarism to civilization. Living standards have risen over the centuries, not where "rugged mountain-chains...burning deserts...or seas too tempestuous for...the early mariner [obstruct] ...but where trade could best be carried on...." The arts and sciences developed and helped men and women serve each other more and more fruitfully as exchange became easier and cheaper.

Yet, time and again, men have deliberately created obstacles to trade. These were, and sometimes still are, called "protective." They "protect" one group from the competition of producers in other countries, and in this way hurt their fellowmen who consume the product. People buying and selling freely will enjoy the fruits of mutual benefit. For example, we can have food without producing any of what we eat, getting it from places distant and near. The oil for our heat, planes, and cars—where does it come from? And who are the customers for what we and our neighbors produce? Buyers in other lands purchase around $70 billion each month of goods and services produced in the United States.

In discussing obstacles to imports, the term "protection" is often used with overtones of merit, something beneficent. "Restriction" seems more accurate. A stated objective of aiding producers can be achieved by raising the price to buyers. The persons hurt will rarely see the burden. How many Americans know when they consume something containing sugar, they are victims of restrictions on sugar imports? The fact that burdens are concealed makes it easier for advocates of restrictions to press their case, using political power to coerce rather than relying on economic power from the offer of value that attracts willing buyers.

The costs of trade restrictions do even more than the harm caused by the forced transfer of well-being from consumers. Labor and other production resources will not flow as smoothly as possible to the opportunities where they would naturally be best used. On the one hand, these are the “production possibilities,” taking account of the prices of labor and materials and technical realities, and, on the other hand, the desires of consumers.

Pressure to realize the best possible “natural” conditions will not lead to heaven on earth or riches for all. But those conditions, one can conclude, will lead to better results than if political determinations are introduced. Of course, anyone with imagination—especially if it is reinforced by selfishness—can claim that “doing good” for some at the expense of others may be justified. Human ingenuity in trying to force someone else to provide benefits leads to plausible examples that do seem to have merit. Restrictions on the export of goods that contain advanced technology, for example, will be justified for reasons of defense. The positive results, however, almost entirely come from ignoring part of the whole—costs to consumers, diversion of productive resources from their inherent (natural) best uses, and longer-run direct and indirect burdens on export industries.

American experience has gone through various stages. Through much of the nineteenth century, concerns for raising federal revenues were influential. However, if a tariff on imports raises “much” revenue, it was probably not restricting the volume of trade “greatly.” Through much of the nineteenth and early twentieth centuries, restrictions were placed on manufactures as “protective.”

A major tariff-increasing law, the Smoot-Hawley Act (1930), imposed new barriers to international trade and added to the forces that aggravated the growing worldwide depression. But in the mid-l930s, the United States changed policy and became a leader in efforts to reduce obstacles to buying and selling among different countries. After World War II, the reduction of tariff and other barriers gained force and general acceptance in much of the industrialized (nontotalitarian) world. Man-made obstacles to trade were reduced.

Technological changes, improvements in communication and transportation, and increasing prosperity in much of the world brought a huge rise in international trade. Finance and the flows of capital helped economies whose progress took advantage of, and stimulated, the worldwide division of labor. Henry George could not have dreamed of the progress that his ideas and advocacy helped to advance.

Our standards of living benefit from freedom of trade in many ways, most of which we do not see and take for granted. Some of us as individuals, and the country as a whole, must pay for the billions we import each week by exporting goods and by providing services to persons in Canada, Europe, Latin America, Japan, and other lands. Foreigners invest in this country, and Americans invest overseas. Mutual benefits flow from successful investment efforts.

But by no means does every undertaking meet with success. International investments sometimes fail. The risks can be greater than with domestic projects, not only because of the normal uncertainties of business ventures but also because of those arising from the politics of other countries and from changes in the prices of currencies.

At the end of the twentieth century, international finance has achieved much in aiding the rise in living standards, but the banking and other institutions that finance flows of trade and capital present problems that challenge the world's leaders. Proposals for specific provisions to change the World Bank or the International Monetary Fund or to regulate financial institutions do not come before the American voter. But controversies about trade, especially imports, do appear year after year.

Competition for votes can try to use politics to do what economic reality will not do—diminish the results of free choice. Moreover, economists will point to the competition of international trade as a protector against domestic monopoly or, in much less extreme situations, the use of economic power to raise prices. Some workers, whether or not in unions, may see that their ability to get higher compensation is limited by the prospect of foreign supplies and as a result support proposals for restrictions.

Efforts to obstruct trade continue, sometimes more hidden than out in the open. In this country and elsewhere, devices other than the traditional tariff (which sets, say, a fixed percentage of the price) are used. Arbitrary limits on the quantities of some imports (quotas) survive here and abroad in spite of the general spirit of freeing trade. Some limits are transition devices defended as providing time for adjustment as a tariff is reduced. Quotas on certain agricultural imports have also been used to make domestic price-raising restrictions workable. And specific restrictions have been threatened or imposed to force other countries to remove barriers.

Imports, here and abroad, may be prevented or limited on the grounds of protecting against some plant, animal, or human disease. Recently there have been efforts to use the American power over imports to influence environmental conditions in Mexico or the methods of fishing in the oceans. Private groups have pressed American retailers to force manufacturers abroad to raise wages paid to children and women or to improve working conditions.

Human rights issues arise. Can and should the United States use its power to restrict imports as a means of influencing human rights elsewhere, for example, in China? Sometimes a proposal with aspects of international trade has a defense element—perhaps with some basis in reality, perhaps rather spurious. And at times, especially in the years of strain after World War II, governments imposed limits on the use of domestic funds to pay for imports that require a foreign currency. The reasons may have been reasonably related to apparent shortages of foreign currencies, but they also delayed necessary adjustments of monetary and other domestic conditions.

Trade for the United States and around the world is not free to the extent that Henry George held as ideal. But the flows of goods and services reflecting market conditions, largely free and voluntary, permit Americans and persons in much of the world to produce more effectively and consume more than in the past.

Threats to the system must be faced. One set has declined. Until the collapse of the Soviet Union and other socialist governments, their controls impeded their own progress and limited economic opportunities for others. Within the United States, one sees complaints about low wages overseas or “unfair” price discounting; pressures for restriction arise. Most are not notably forceful in themselves, but advocates can and do try to pool their interests. The combinations of forces, aided by contributions to election campaigns, do at times get restrictive actions.

Henry George likened the political process of tariff-making to throwing a banana into a cage of monkeys. If there is hope of getting something, there will be a scramble. But in reality the conditions are worse—the monkeys will not combine, as will humans, to multiply their power and hurt others.

Modern public relations skills can be highly effective in persuasion for some trade restriction. And almost any case has some element of merit—perhaps not much more than, “We are part of the country, and so helping us will help the country.” But the restrictions impose burdens including, over the years, impediments to export producers. Members of Congress feel pressure from constituents that can outweigh the broader interest of all.

Nevertheless, freedom for buyers and sellers serves the broad public interest. The growth of trade since World War II testifies to the wisdom of those like Henry George who pressed for free trade.