

The Necessity of Free Trade

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Introduction

The argument of this essay is that the United States must adopt a policy of full free trade. In order to promote the public good it must completely eliminate “protective” measures like tariffs and quotas. These protect only domestic producers from foreign competition. Instead of protecting domestic consumers, trade restrictions harm their economic interest and violate their right to buy without government involvement. In today’s global economy, it is essential to maintain barrier-free exchange in the use of the world’s scarce resources. Protectionism reduces both absolute and comparative advantage and causes damaging counter-trade policies. This is aside from the fact that it can cripple domestic industries.

In the past, international trade was restricted by high transportation costs. These costs made local production for local consumption efficient for many goods and services. Under those conditions, government restrictions on trade had fewer widespread effects than they do today. With improvements in technology, the cost and difficulty of transportation and communication has become less important with more goods and services being traded to the mutual benefit of buyer and seller. Because of these innovations, the harm done by government restrictions on trade has become more pronounced on the individual consumer. Our argument is that a level of “protection,” that may have done little harm at one time, now has wide-ranging consequences because of the modern phenomenon of global economic interdependence.

Importance of Comparative Advantage

Protectionism only weakens our economy. When markets are allowed to work, “free trade simply increases the extent of a purely domestic market and, therefore, increases the advantage of specialization.”¹ This is where the idea of comparative advantage becomes significant. Every nation would be better off if allowed to produce and export what it can generate most efficiently and import only those products that it cannot cheaply produce at home. Adam Smith, the founder of modern economics, placed great emphasis on the division of labor and the extent of the market as causes of the wealth of nations.² It is amazing that after more than two hundred years public officials still behave as if “protection” has really provided security for consumers.

A good example that shows how and why comparative advantage should be practiced internationally can be seen in the case of the United States. Based on Wallis’s study,³ suppose that the state of Michigan decided that Arkansas frozen chicken providers were making excessive inroads in the Michigan market, and suppose further that Michigan (defying the constitutional prohibition against internal tariffs) managed to impose a special levy on all frozen chicken entering the state. This action would hardly be consistent with sound economic principles. If Arkansas is more efficient at chicken production, and Michigan in financial services, then the two states would be richer if each specialized in what it does best and traded with the other. Further, were Michigan to persist in its unwise policy, it is easy to see that Arkansas or any other state in this position would likely retaliate with sanctions against Michigan. Others would soon join in these practices. This would cause a spiraling effect, leading to a reduction in economic activity. This, in short, is roughly what occurred in the 1930s, thanks to the U.S. Smoot-Hawley tariff, which exacerbated the Great Depression.

It is easy to see why allowing the states to establish trade barriers against one another would be disastrous. Following the same economic logic, we can understand how protectionist measures on the international level can only injure all nations. When “every major country protects a major industry, there will be no world market for any of them to conquer.”⁴ Specialization of labor is an important building block of prosperity. It is just plain foolish to make something you could buy cheaper from someone else. Protectionism leads to a world of poverty and international isolation.

It is important to understand that it is people and the capital they use that become specialized into the most productive uses. If there is free trade

between the United States and Mexico, it does not follow that each nation will be the exclusive producer of most goods. Automobiles, for example, may be produced by people who specialize in that industry in both countries. This is no different from what we find within a single country. Automobiles are produced in different states of the United States such as California, Tennessee, and Michigan. Automobiles are, in fact, produced in Mexico and Canada as well as in the United States. Cars manufactured in each of these countries are sold in all three nations. The benefits gained from specialization are the result of workers and equipment becoming particularly suited to manufacturing a product wherever they happen to be geographically located.

Mutual Free Trade

Protectionist measures give domestic producers an artificial advantage over their foreign counterparts. At first glance, such barriers may seem to be advantageous measures that save jobs. In truth, however, policies that exclude foreign products only hurt the global economy and all who participate in it. Consumers in the importing nation have to pay more for that widget—when it could have been produced and imported from another country at a lower cost. These restrictions undoubtedly benefit local producers but are an inefficient use of money for everyone else.

During the Great Depression of the 1930s England raised its tariffs to extremely high levels and used its navy to restrict the flow of goods produced elsewhere from entering. This was accomplished at great expense to British taxpayers and despite the efforts of many smugglers to avoid the tariffs. Then, in 1939, Adolph Hitler generously provided this same service to the British with the German navy and its U-boats. Moreover, the Germans provided this service at no expense to the British taxpayers. All costs were paid by the German people. One would expect an outpouring of gratitude from the British for this kindness from their German neighbors, but it was not to be. On the contrary, this was an act of war by an implacable enemy—not the generous act of a friendly nation. Yet, what Germany was doing to Britain was merely what the British government had been doing to its own people only a few weeks earlier. Indeed economically speaking, by pursuing protectionist policies, our own government does to us in peacetime what enemy governments do to us in time of war.

The British consumer paid dearly for the blockade of his shores, whether it was imposed by the Germans or by his own government. In either case,

however, did not the prohibition of imports protect British jobs? Things that otherwise could have been imported now had to be produced domestically—even though it was more costly to do so. Yes, jobs were protected or even “created” in industries in which England was less efficient. But that meant that workers were no longer available to work in industries where England was more efficient, that is, in which it had a comparative advantage. Moving workers from where they produce more to where they produce less is a recipe for government-imposed poverty.

The United States, too, imposes tariffs and quotas to protect jobs in particular industries. Just as in wartime Britain, these measures reduce our standard of living. They make us poorer, not wealthier. Every job “saved” in a particular industry costs consumers. Edgmand, Moomaw, and Olson cite U.S. government figures for a number of industries.⁵ Often the cost to consumers is far more than the worker—whose job is “saved”—receives in pay. The cost to consumers per job “saved” in ceramic tiles, for instance, is \$225,000. This means we could pay each ceramic tile worker whose job was “saved” \$100,000 a year to do nothing and still be \$125,000 better off! This illustrates the absurdity of trying to save jobs through protection. Free trade would allow these workers to take jobs in which they make their fellow citizens better rather than worse off. So-called protection is just a means of impoverishing consumers to benefit a few workers and capitalists in specific industries.

If government really wants to create jobs, there are more direct ways. It could, for example, amputate the right arms of all house painters. This would directly increase the number of jobs for house painters. It has the bonus of providing an implicit affirmative action program for a heretofore sadly neglected minority group: southpaws. This direct action to create jobs does, of course, reduce productivity since each painter can now produce less. Indeed, that is precisely why it produces more jobs. The same is true in the case of protection through tariffs and quotas. It is less transparent but, nonetheless, equally true. Each worker is now producing less of value to consumers than he would have in the absence of the tariff or quota.

Tariffs also reduce efficiency by preventing international specialization.⁶ If the product can be made cheaper somewhere else, the United States should not waste resources producing it. Those who do could be transferred to an industry that is more economically efficient. With the emergence of specialization, each nation can efficiently allocate resources and produce goods with the greatest quality at the cheapest cost.

A more fundamental objection to protectionism than the argument that it reduces the wealth of nations is that it impairs the freedom of individuals. Each human being has a basic human right to decide for himself what goods and services to buy and from whom to buy them. He is free to choose. Protection takes away that right. The individual freedom to choose is inherent in his humanness—not in his national citizenship. As a human being he is free to buy and sell with other human beings, not merely with other citizens of his own country. When a government imposes protection, it violates the human rights not only of its own citizens but those of other nations as well. If other nations choose to restrict the freedom of their own citizens and to impoverish them in the process, there is no reason for the United States to follow suit. American protectionism may make the citizens of India or Pakistan worse off, but it makes us poorer and less free.⁷

For the sake of argument, suppose that there are special cases, particular industries in which it can be demonstrated by neutral third parties that government protection will make Americans richer. Will the government choose to protect these particular industries, or will it choose industries that make the greatest contributions to political campaigns and whose unions operate campaign telephone banks? Do you trust this government to pick the industries to favor with the tax payers' largesse? This is the same government that turned the Lincoln bedroom into Motel Six and gave us Rube Goldberg's health care plan. If you trust this government to make the correct decisions, how about the one that gave us Iran-Contra or Watergate? Even Paul Krugman seems to accept the fact that if a case could be made that shows protection to be beneficial, the best policy would still be that of free trade.⁸

If another nation were to impose protectionist measures for its industries, should we retaliate by imposing restrictions of our own? If we do this, we may actually contribute to the harm those citizens already experience from their government. We do so, however, at the cost of harming our own people and restricting our liberties. If Britain does not maintain its ports so that it becomes more expensive to ship goods into them or to send goods out of them, should we intentionally tear up our ports in retaliation? Doing so just makes it more costly for both us and them to trade. In effect, we cut off our nose to spite their face. If they choose to inflict harm on themselves, there is no reason for us to emulate them.

A good example of this can be seen in the case of Japan and the United States. Japan has benefited from our markets. Yet, that country penalizes our exports to it. One example of Japanese sanctions is the restrictions on

rice imported from the United States, which favors Japanese rice producers. Both nations would profit if Japan abolished these barriers. Would it be wise, then, for us to emulate the Land of the Rising Sun and impose taxes on Japanese autos entering our country? Not at all, despite the great demand in this country for a tit-for-tat policy. This only harms domestic consumers, who will now have to pay more for this product.⁹

Free international trade is part of the seamless garment of free markets. There is no reason for a national border to imply conflict rather than cooperation among individuals in pursuing exchanges that are expected to be mutually beneficial. On the contrary, cultural and geographical differences may increase the opportunities for mutual gain.¹⁰ In this sense, indeed, diversity is a strength.

World Free Trade

Nations have worked together to negotiate trade policies, agreements, and legislation. Coalitions like the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) could play a crucial role in benefiting the world economy. Unfortunately, these groups have other, not-so-hidden agendas. Instead of pressing for an immediate and total declaration of free trade on the part of all nations of the world (which would eliminate the need for the very existence of these organizations), they attempt to promote needless and wasteful “negotiations” on specific tariffs. Furthermore, they seem intent upon promoting the socialist vision of labor and environmental law. Nations involved in these alliances will certainly lose from these agreements.

If protectionism continues to prosper on a global scale, world trade will stagnate and living standards will not increase as fast as they otherwise would. Only unilateral declarations of total free trade will maximize opportunities leading to efficiency and growth. All nations, whether highly industrialized or less developed, must leave GATT and the WTO to act on their own.

These agreements and the permanent organizations to which they lead are intended to manage—not free—trade. The result is not trade managed by each nation but trade managed by an international bureaucracy. This is yet another example of the conceit of the planner. Free economic activity results in spontaneous order through the voluntary interaction of individuals each seeking his own self-interest. This voluntary action to achieve mutual benefit generates cooperation and harmony. Rules, regulations, boards, and appeals generate winners and losers. Free trade is not a zero-

sum game. All parties to voluntary cooperation expect to benefit, otherwise they would not participate in the exchange. Bureaucratic political processes, on the other hand, typically produce winners and losers, often in a negative-sum game. A WTO and continual jockeying for some national or industry advantage may (or may not) be superior to national protectionism. However, it is not genuine free trade.

The International Criminal Court, recently established by 120 countries, outlaws the crime of aggression. We may be certain that this effort to ensure world peace will fail as long as the nations and trading blocks of the world accept protectionism. As Ludwig von Mises observed: "The philosophy of protectionism is a philosophy of war."¹¹ It has often been argued that free trade diminishes the likelihood of war because people who work together through trade for their mutual benefit do not want these mutually beneficial relationships interrupted. Stated another way, nations that are reciprocally dependent upon each other will be reluctant to upset that relationship. Yet, there is a more basic reason why free trade encourages peace. It is part of a general philosophy of freedom.¹² It is this philosophy of freedom that makes peaceful relations among nations much more likely, just as it does for relations among individuals.

Protectionism is based on fear: fear of people, customs, foreign languages, and even of change itself. Free trade means buying and selling from people who are different from us. Successful selling and buying requires developing an understanding and respect for the culture and values of other people. Full participation in the global economy requires just these kinds of changes. Adapting to change can, however, be challenging and exhilarating. Change offers opportunities that were previously unavailable. Entrepreneurs thrive on change and the opportunities it brings. We live in a world of rapid technological progress with ever-expanding opportunities for the innovator and the risk-taker. Consumers, workers, and businesses often benefit from the work of the innovator and entrepreneur.¹³ Free trade expands the number of entrepreneurs whose actions provide us with benefits. Free trade literally expands the market for entrepreneurship to the benefit of American consumers regardless of where the entrepreneurs may reside.

Conclusion

It is important that all nations, not just the United States, totally eliminate protective trade measures. Barriers reduce efficiency and prevent international specialization. Specialization and comparative advantage allow

each to produce according to its best advantage under economic freedom. Nations will no longer throw their precious resources into industries where they do not have an advantage. Exchange barriers also lead to retaliation. If some nations impose sanctions, they should expect to have the same action taken against them. But it is all so unnecessary: There are still benefits from free trade even when others cut themselves off from them. Just because you refuse to trade me for lumber products, say, it does me no good to refuse to trade foodstuffs with you. If there are two men in a rowboat and one of them shoots a hole in the floorboard, it makes no sense for the other to shoot yet another hole there. Each and every trade is mutually beneficial in the *ex ante*, or anticipatory, sense. That is, if I trade you fifty cents for a newspaper, we each value the other's possession higher than our own. Otherwise, why would we each agree to the deal?

For the future, it is essential that countries move away from protectionism and toward an open-door trade policy. We must acknowledge that not every nation will submit to barrier-free trade. However, this should not stop others from participating in world trade. Eventually those blocking trade will realize the inefficiency of their ways and move to less restrictive measures. If they do not, they will be relegated to the dustbin of economic history, as now seems to be the case for Cuba, North Korea, and several of the African countries.

A world of protection is a world that fears change, tries to stand in the way of progress, and denies freedom. It promises safety, but ultimately, it is the safety of the slave. It promises stability, but its stability is the stasis of death. In contrast, a world of free trade is a world of optimism, hope, and rapid development. It is a world of freedom in which individuals look to the future with enthusiasm. Ultimately, free trade and the philosophy of freedom on which it is based are life-affirming.

Notes

¹ Michael Kinsely, "Keep Free Trade Free," in *Taking Sides: Clashing Views on Controversial Economic Issues*, eds. Thomas R. Swartz and Frank J. Bonello (Guilford, Conn.: The Dushkin Publishing Group, Inc., 1995), 290.

² Adam Smith, *The Wealth of Nations* (New York: Random House, Inc., 1937 [1776]), 415.

³ Allen W. Wallis, "Protectionism: A Threat To Our Prosperity," In *Free Trade vs. Protectionism*, ed. Donald Altschiller (New York: H. W. Wilson Company, 1988).

⁴ Kinsley, "Keep Free Trade Free," 301.

⁵ Michael R. Edgmand, Ronald L. Moomaw, and Kent W. Olson, *Economics and Contemporary Issues*, 4th ed. (Orlando: Harcourt Brace College Publishers, 1991), 405.

⁶ James Gwartney, Robert Lawson, and Walter Block, *Economic Freedom in the World*

(Vancouver: The Fraser Institute, 1996).

⁷ Henry George, *Protection or Free Trade* (New York: The Robert Schalkenbach Foundation, 1980 [1886]), 150.

⁸ Cf., Paul Krugman, *Pop Internationalism* (Cambridge: MIT Press, 1996); and "A Raspberry for Free Trade," *Slate* 20 (1997).

⁹ Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, Inc., 1980), 40–41. See also Robert McGee, "The Cost of Protectionism," *The Asian Economic Review* 32, 3 (December 1990): 347–64; *A Trade Policy for Free Societies* (New York: Quorum Books, 1994); Walter Block and Robert McGee, "Ethical Aspects of Initiating Anti-Dumping Actions," *International Journal of Social Economics* 24, 6 (1997): 599–608; "Must Protectionism Violate Rights?" *International Journal of Social Economics* 24, 4 (1997): 393–407.

¹⁰ Thomas Sowell, *The Economics and Politics of Race* (New York: Morrow, 1983), 19.

¹¹ Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven: Yale University Press, 1949), 683.

¹² Joan Kennedy Taylor, ed., *Free Trade: The Necessary Foundation for the World Peace* (New York: The Foundation of Economic Education, Inc., 1986).

¹³ Paul Heyne, *The Economic Way of Thinking*, 6th ed. (New York: Macmillan Publishing Company, 1991), 263.