

## AN ESSAY ON FREE TRADE

It is strange, indeed, to have devoted one's life to an obscure topic and to sense it suddenly as a focus of political passion. It is also a unique opportunity: when a country like France, so long a victim of protectionism, makes ready to give it a new impetus, when another, the United States, hopefully cured, envisages it as the stock issue of an electoral campaign, it is fitting to search for motivations which preserve world-wide restrictive practices no longer defensible in theory. Thus, a compartment is discovered first found in international trade then invading the most variegated fields and explaining in large measure the rise of the day's great problems: unemployment, the financial crisis and the armament race.

It is not necessary to linger over a defense of free trade: few economists would contest today its validity. In brief, the case is as follows: exchange affords a mutual advantage, but since the aim of the economy is needs' satisfaction, the utility of a purchase is direct whereas that of a sale is indirect; consumption is an end and production is a means; moreover—and this applies particularly to international relations—exchange allocates resources to the most productive uses and important subject producers to the necessary

incentive of competition. Be that as it may, with the exception of two-score years during the nineteenth century, the commercial policy of nations has been dominated by mercantilism and by protectionism. How was the road lost and how is it possible to find it again?

#### MERCANTILISM AND RECIPROCITY

The principal inspiration of the conventional wisdom which informs commercial policy has been within living memory mercantilism, roughly the anxiety to export more than one imports. Mercantilism negates the otherwise-accepted reciprocal advantage of exchange whenever the purchase or the sale takes place across a political border: it gives consideration to the sole advantage of the seller and neglects that of the buyer.

This is giving primacy to means over ends. Misled by chronology, argumentative man does not accept without effort that ends determine means: as it informs conventional wisdom it suggests that one should produce without knowing why. Thus, the above-mentioned advantages of importations and the reciprocal benefit of exchange are forgotten and public powers responsible for national interests feel obliged to sell without buying, or should they be forced into a conciliatory mood, they seek at the very least to equalize visible benefits: namely those of the sellers.

This tendency to grasp only the visible benefits of exchange is strengthened by political mechanisms intended to rule it. Compared with such important but imponderable factors—welfare of the consumer, production's orientation and competition's incentive—a less difficult advantage to measure is the size of the market to which a given reduction of customs obstacles will give access. In diplomatic parlance this market is "the advantage" while the opening of the same is a "concession." The art of the negotiator will be to establish "reciprocity" by equalizing on both sides "advantages" and "concessions." There will be no mention of the other benefits of exchange.

This negotiating method had the deepest influence on the development of international trade: it is largely responsible for its blighted hope; it confirms public opinion in its error; it conveys

an appearance of legitimacy to trade obstacles since the latter can be the objects of an agreement; it encourages governments to increase their tariffs or to introduce other barriers as bargaining chips and it invites them to develop escape clauses. Reciprocity rests on a misunderstanding: it seeks to establish outside the exchange a quality that belongs to each transaction and, thereby, it spreads around the confusion from which it stems.

In particular, it makes a mockery of a correct vision: economic adjustments may require time and an existing disorder cannot be immediately mended; one cannot suddenly remove one's shelter; it might be wise therefore to provide for gradual liberalization through international agreement; but should such an agreement be based on reciprocity, lending itself to bargaining, it becomes a pretext for the maintenance of restrictions and, starting with the intent to reduce those restrictions, it ends up with their aggravation. For, as long as one sees in international trade the sole interest of the producer apart from its natural complement, one will redouble restrictions in order to establish artificially an equitable treatment which preexists in nature.

Private interests cannot better understand the advantage of exchange than governments can; they have always fallen victim to the illusion that an alliance with public power could secure for them rents which they do not find in the market; conventional wisdom has confirmed that illusion, and their repeated failures have not succeeded in dissuading them.

The guilds of old were listened to by mercantilists who advised the Prince: the latter wanted more treasure and the former, the maintenance of their privileges. This caused the social rigidities which were in part responsible for the Glorious Revolution in Britain and for the French Revolution. In the modern period, agriculturists made the most of their apprehensions: those apprehensions, by the way, served the desire of governments for food self-sufficiency in case of war and for a semblance of equilibrium in the balance of payments. This gave rise to complex systems of price supports, to production controls and to subventions which enslave agriculture in all countries, be they the United States, the European Economic Community, Japan, Latin-American republics, or those of Asia and Africa. The effect of those systems cannot be denied: in some places, starvation is endemic and elsewhere

surpluses accumulate.

To be sure, in reaction against the principle of autarky in war and peace a vast liberalization effort for industrial goods was undertaken with the General Agreement on Tariffs and Trade (GATT) in 1947 and with various negotiation rounds (Dillon, Kennedy and Tokyo). International trade has increased by an average of seven percent per year between 1948 and 1973, an average far in excess of that of annual production-increase rates, and both well ahead of figures registered in the first half of the century. But, since those liberalization efforts took place in the narrow framework of reciprocity, their success was precarious, hedged, in periods of prosperity, by the dread of excessive “concessions,” and exposed, when economic activity flagged, to withdrawal of concessions and to introduction of new restrictive measures. Governments first tried to get around the legal definitions of GATT by subsidizing their industries—another mercantilist measure identical in its effect to limitation of competition—and those who complain the most about those practices are not the least addicted to them: witness preferential interest rates granted to Chrysler by a government legitimately opposed to similar interventions in Europe or in Japan.

GATT ratified all the practices dictated by reciprocity, namely those issuing from the prejudice that exchange is not equitable in itself but must be made so by public decree; it merely regulated the use, and sought to prevent the abuse, of those anti-dumping duties, escape clauses of all descriptions and retaliation rights which all imply that cheapness is bad business. This regulation effort may not have been entirely in vain but it has not altered the mercantilist prejudice; in fact, it has reinforced the prejudice. It has not prevented powerful nations from submitting foreign suppliers to the most extraordinary blackmail in the history of commerce: the “voluntary” export quota established under the threat of a compulsory import quota. With the hypocritical title of “orderly marketing arrangements” those compulsory agreements extended from textile products to steel, then to automobiles and to electronic products, covering today a third of United States’ and of France’s markets. At this point the question is no longer that of a choice between mercantilism and free trade: even those who favor the latter go so far as to propose restrictive measures “in order to avoid the worst.”

Mercantilism under the guise of reciprocity leads necessarily to trade shrinkage. It is argued that the danger will vanish when business improves. This is cold comfort. An economic system should not only "avoid the worst," which is often the way to fall into it, it should also offer mechanisms or voluntary controls capable of pulling it back towards its objectives. This is not the case of a system based on reciprocity. The recession of the eighties' demonstrates this: as soon as things are going wrong each partner keeps watch on the others' conduct and, since each one uses different methods of commercial organization and of states-business collaboration, it is always possible to proclaim that a partner is unfair, that reciprocity has been breached either by technical developments or by government action. For example, the transborder transmission of electronic data banks is denounced as affording the central operator an unequal advantage that requires compensation. Elsewhere, businesses' complaints will be heard that foreign financing methods or investment rules deprive them of some market or of some financial opportunity. Claims for compensation will be usually at the expense of trade. Many bills are now pending before the United States Congress with the objective of establishing an ever more stringent concept of reciprocity. Contrary to the expectations of the 1934 Reciprocal Trade Act and to those of Cobden as early as 1860, reciprocity is not the means of converting nations to trade liberalization; it is in the present circumstances the handmaiden of mercantilism.

#### PROTECTIONISM

Distinct from mercantilism, whose negative objective is to exclude foreign provisions lest your treasure or your job be taken away, the term protectionism is reserved here to a positive form of exclusionism aiming at the development of new industries which would not thrive without it. Many justifications have been found for this artificial job creation: national defense is often an excuse, but the influence of the 19th-century economic revolution has been a general cause. The use of movable energy sources, such as coal, having made possible the development of machines, the dependent production mode and life-style appeared more desirable than tradi-

tional agriculture: Adam Smith demonstrated that they lent themselves better to division of labor, the fountainhead of economic prosperity, and Friedrich List became the evangelist of industrialization. It seemed to the latter, whose influence was immense, that collectivities would more promptly rise above their estate of “hewers of wood and drawers of water” should they sacrifice that international division of labor that the former considered essential. Thus were fashioned the policy of protection of infant industries, that of import substitution and the doctrine of the “surplus.” These policies and that doctrine were implemented by the countries of continental Europe industrially lagging behind Great Britain, notably by Germany, and, more strikingly so, by the Bolshevik revolution. Alarmed by the failure of revolution to “return to its bed,” by the failure of the advanced countries to enter the path of communism at the turn of the twenties, Lenin and Trotsky and later Stalin resorted to the extreme form of protectionism: foreign-trade monopoly—the perfect expression of substitution policy—the force-feeding of heavy industry and the exploitation of agriculture in order to provide the necessary “surplus” for industrialization.

The second major event of modern times is the emancipation of colonies after the second world war, prepared by the advance of self-government in the countries of the British Commonwealth between the two conflicts. This emancipation obliges the new states to select a model of economic development. The only model available from their former masters or from the Soviet Union is that of forced industrialization behind a customs shelter. While the British colonies of America had revolted in 1733 against a violation of commercial freedom, Third World countries hardly relieved from the colonial pact which had subjected their trade to the whims of the parent state, hasten to confine themselves within an even more restrictive system. Industrialization is the desired objective, the smoke-stack—that of the steel mill in particular—becomes the status symbol of sovereignty. Moreover, advanced nations are enthralled by an undertaking that facilitates a roaring trade in production machinery and they do not hesitate to encourage it through loans and through technical assistance. These nations, incapable of taking the long view, advocate as early as the fifties’ a policy of “aid rather than trade” which the national

co-operating agencies, the World Bank and the Monetary Fund duly implement.

Consequences of this course are today exposed to public view. Low-interest transfers for economic aid did not suffice to build the desired industries, especially since, along with the industrialization model, emancipated countries inherited bureaucracy and social "protection" about which more will be said later. Artificial incentives were needed for infant industries: a monopoly and a "surplus" extracted from agriculture for their development. By GATT's leave, exceptions were taken against its rules in order to insulate the market and a surplus was collected, indeed not by the slaughter of *koulaks* as in Soviet Russia, but by the euthanasia of the farmers resulting from a ceiling for farm prices, often in conjunction with ill-conceived land-reform plans which gave acres to inexperienced hands while cutting them off from access to capital. These measures contributed to exponential increase of urban population with all the attendant social problems. Industrial protection and taxation phased agriculture out in many African and South American countries just when the shrinking of mineral resources afforded them a better opportunity to use their space and their sun for the production of crops of renewable raw materials, natural rubber and others. The shift of productive forces to activities for which those countries did not dispose of comparative advantage had the well-known effect: aid and surplus were insufficient to offset deficits; former colonies appealed to countries with which they still had sentimental ties, encumbering the latter's finances, and the others, in particular Mexico, Poland, Brazil, Chile and Argentina availed themselves of the preference which private banks extend to any kind of government. Today indebtedness of those same countries has become a permanent threat to the international financial structure.

#### EXCLUSIONISM

Mercantilism and protectionism belong to the family of noxious interventions herein termed exclusionism. Starting as we shall see from international trade, the family is present in inter-state political relations and in the mutual rapports of social groups; its



members figure as links in the causative chains of historical events; and its theoretical importance, even more so its practical importance result from the affinity of attitudes and of measures which have been appraised heretofore in separate compartments of science and of politics.

Let us first define noxious intervention or exclusionism: indeed, protectionism and mercantilism provide illustrations of its two main features. Mercantilism reflects national or social groups' intent to do that which common morality forbids individuals to do, namely to free oneself of a bad, of a painful adjustment for instance, by inflicting it on another group. Protectionism pretends that economy can be manipulated at will regardless of "manual laws" which exist only in the conservative imagination. Any intervention that presents both features is noxious: natural laws are not a figment of imagination and it is no more possible to frustrate them than to build a bridge regardless of gravity; and any transfer of a bad one from one group to another has a price tag, either because the transferee retaliates or because the transferor suffers directly. These propositions have been demonstrated repeatedly in the case of international trade. It remains to illustrate them in the general case.

As a preliminary it should be noted that interventions of public powers with the movement of goods have taken place before all others and, very likely, have given rise to them. Social policy in particular, the assumption by public budgets of contributions to groups deemed to deserve support has followed at a long interval the quasi-monopoly granted by the government to a favored producer; minimum wages, family subsidies, social security transfer are very recent inventions compared to customs duties, import and export prohibitions, quarantines and other obstacles placed as early as the 12th century by sovereigns at the borders of their domains. Possibly, lacking such precedents, social reforms might have taken a different course and presented less of a challenge to the laws of nature than the present ones, because the underprivileged would not have had within reach the model and the decisive argument of favors to those who deserve them less than they do. This sequence suggests at any rate that it will always be difficult to repress the excesses of social policy as long as we have not corrected those of commercial policy.



In the social field the most glaring abuse is price fixing of which paradigms we shall consider only the minimum wage. The minimum wage is taken for granted; its origin is now forgotten, and so are early criticisms which it encountered and its responsibility for permanent unemployment. Minimum wage grapples with economic risk in the fashion of commercial exclusionism. The risk here is that workers lose their purchasing power after a change in the supply of, or in the demand for their product. In mercantilism's case the change probably occurred in the supply and, since it came from the outside, the easy remedy was a barrier against importations; thus the burden was apparently displaced from the domestic to the foreign producer. When the change does not have an external cause, measures removing its impact from a given group shift that impact—in appearance and in reality—to other groups of the same country. The minimum wage transfers the adjustment cost to the unemployed whom it creates, for it denies employment automatically to workers whose services afford less utility to their employers than they cost in terms of minimum wage of related social contributions. The minimum wage was first introduced in England through unemployment compensation which established a floor under earnings. That compensation was inspired by a respectable sentiment of solidarity but since it modified market prices it turned out to be counterproductive: it excluded the unemployed. Exclusion became ever more severe when the minimum was adjusted to price increases. On that account the permanence and the increase of unemployment are enforced in periods of inflation. Finally, the “redistribution” of jobs reducing the work length without wage loss can only reduce the number of wage earners step by step.

Palliatives offered against unemployment have similar consequences: subsidization of sunset industries only postpones their liquidation and makes it more painful; immigration restrictions reduce “green-card” workers' remittances, and barriers to importation deprive other nations of resources which could be used only for the purchase of goods or services in the allegedly protected market: all those measures impoverish customers and reduce the number of jobs in exporting industries. On the whole, the foregoing statements seem simple and obvious but they cannot be made publicly without raising indignation: exclusionism, indeed, rules

the mind itself and makes a taboo of the topics to which it applies.

Dare anyone criticize land reform and its double exclusion mentioned above even though it has been disastrous in Iran and elsewhere? Or indict penal systems which pretend to reintegrate into society those who have rejected it, by segregating them more effectively? Or blame socialized medicine which deprives the most needy of care while professing to make it more accessible to all and which also endangers rather than safeguards public health to the extent that it misallocates doctors' time and makes it easy for patients to neglect personal discipline and prevention? Who will dare to recognize in the educational crisis consequences of abusing premature examinations which freeze vocations, of teenagers' exclusion from the field which fits them best, namely action, and of adults' interrupted contact with the ever-changing flow of knowledge?

These few examples are enough to show that such problems arising in a variety of fields are branches of the same trunk closely related by an identical comportment. Sexual relations themselves are clarified by the concept of exclusionism. This is beside the point, however, since exogamous and andogamous taboos, racial discrimination and the prejudice against homosexuality are on the way to being discarded. To be sure, this is at the same time the best demonstration that exclusionism is not irreversible: duelling after all has passed out of fashion. We have therefore some reason to hope that exclusionism's effects on, say, inflation and the financial crisis on the one hand and the armament race on the other can be corrected as well. With respect to the former, we can already gauge the effect of removing wage indexation and import-substitution. Let's add that confidence in money depends on the variety of goods money makes available; its holder desires it less when trade obstacles limit his choice; conversely the currency of a relatively free-trade country like the United States is accepted as international reserve; some see in grand-daddy's gold standard the solution of the financial crisis; this is simply, however, because gold procures any wealth; any issuing country can convey the same virtue to its paper money.

Furthermore, monetary exchange stability depends on the ratio of currencies' supplies and demands for the steady needs of trade and of long-term investment to the sum of capital moving in quest

of a shelter or of short-term profits. A higher ratio, namely a growing international trade, limits the effects of hot money on the exchange market. It is clear, therefore, that the only way to remove all hindrance from the international monetary and financial system is to give a new impetus to international trade by rejecting Third World countries' protectionism and the mercantilism of the rich nations; such a waiver will give a chance to debt settlement and to financial stability.

#### EXCLUSIONISM AND MILITARISM

Relationships between exclusionism and the militarization of the modern world expressed and symbolized by the armament race are variegated and deep. First, war and preparation for war are extreme forms of exclusionism. While observing the permissive Hague laws, each participant excludes his opponent from the human category; in ancient times prisoners became slaves, in the nuclear age one is no longer concerned with the safety of women and children. The twins, mercantilism and protectionism are forms of exclusionism, more moderate but nevertheless related to military action: sometimes they serve it, sometimes they use it and generally they lead to it. Long before Adam Smith, who refers to it not quite seriously, national defense had been invoked to justify the exclusion of foreign goods which might be missed in wartime; with armaments' increasing complexity and with their symbiotic dependence upon the whole economy, the term national security has become more and more encompassing, bringing into its exclusionist sphere more foreign products than ever and extending its purview to prevent so-called strategic exports. In another context, mercantilism, with its suggestion that one's will can be imposed on the foreigner by economic means, cleared the way for measures called sanctions or economic warfare which often triggers a conflict which they stood to avoid.

Last, militarism destroys the industrial structure as effectively as exclusionism's non-martial avatars. The latter's effect is clearly to shelter enterprises from the necessary spur of competition; in the same way, enterprises participating in military procurement become second rate at commercial competition. This is demonstrated

by the present United States situation and to some extent by that of Western Europe: mercantilism's resurgence in both places is in part the effect of militarization which it tends in turn to reinforce. True, the first repercussions of armament programs seemed to be in favor of the economy, but the accelerated development of nuclear energy undertaken in order to sell the hydrogen bomb having preceded that of fission's waste utilization and that of security enforcement, public opinion was unduly alarmed and regrettable incidents occurred. Moreover, this intervention was not coordinated with an earlier low fuel-price energy policy. Energy crisis is in part the result of that contradiction. This is only one case in point. More generally, militarization orients research towards special needs requiring tolerances too exacting for general use; the researcher is isolated either by the specific object of his research, or by security reasons the more severe for resting on less precise criteria; he forgets his vocation for global thinking, he is deprived of the fruitful interchange of the results of his work with his peers, and he sees no longer its possible applications in fields different from his own. Due to increasing specialization, to military R & D programs of ever expanding scope, scientists hoarded by those programs contribute less and less to the requirements of peaceful trade and industry.

At the merchandizing level, habits contracted in military procurement deprive managers and their representatives of market sense. For want of a precise criterion for a particular weapon's fighting efficiency, sales are negotiated, equipment is "gold-plated," personal contacts play a disproportionate role in the business and bribes are not exceptional. The firm price on which rests any serious commercial negotiation is forgotten in armament contracts; in inflation's propitious shadow cost overruns become the rule and firms or individuals who received their schooling in that kind of transaction lose their bearings under the normal conditions of competition. Moreover, when the economy's mobilization is reflected in the use of trade as a means of political pressure, the country that tries in this fashion to impose its will on others becomes an unreliable and therefore undesirable supplier.

Such are some of the factors which placed American and European enterprises at a disadvantage in face of post World War II weaponless Japan. Possibly this newly found inferiority goes farther

back. At the time of the Western industrial revolution, the only available model of collective action was an exclusionist hierarchical model, that of military establishments. According to that model, operators are excluded from decision making; information runs only one way: from top to bottom; while Japan seems to have developed a dual movement of information more appropriate to the implementation of complex technologies. Western weakness in competition might be the consequence not only of its new militarist orientation but also of ancient militarization.

It has been suggested that an exclusionist economy must inevitably fall victim to inflation because of minimum wages, of land reform, of social contributions, of mercantilism and of the protection of infant industries; to all this must be added the cost of the armament race. While consumables are the counterpart of the purchasing power distributed by their production, non-consumables, like weapons, cannot serve as counterpart for any purchasing power which they create; they exercise, therefore, an upward pressure on the price of other goods. The inflationary impact of military expenditures is not limited to the budgetary deficit that they generate. When weapons are sold abroad, the impact is simply shifted; and the noxiousness of the armament trade when that trade becomes a semi-monopoly of the state.

The nuclear peril is well understood whereas the sequence just outlined, the fatal concatenation of economic and military developments is generally overlooked. For all that, this concatenation may supply the means of walking out of a deadend. If all those developments depend upon a common factor, if they are sundry manifestations of a single comportment, a crude reaction to arising problems, suggesting action without gauging consequences, it may be possible to influence events by taking hold of this common factor and by seeking every opportunity to uproot it. The possible becomes probable when we reflect that the comportment in question is none other than egotism which has been denounced by all religious or moral tradition, as opposed to the principle of mutual love and to the golden rule; the very egotism which, under the cruelest illusion under which man ever agonized, has become sacred when it is exercised by the state.

WELL, YES! THE MARKET

Such ethics as are here put forward, one will object, are nothing but a reflection of old liberalism, of superannuated *laissez-faire*, *laissez-passer*, indeed, the restoration of man's exploitation by man. Here we might stop and wonder; should exploitation of man by man be the definition of the free market, socialism, its opposite can only be defined by the reverse of the formula: it turns out into being the same thing! One is tempted to dismiss the objection as frivolous and to assert that, thank God, life is mutual exploitation. In the same mood, one might question the priority given here to *laissez-passer* when the most ardent expounders of *laissez-faire* rhetorics have usually given short shrift to its *alter ego*! There are, however, more serious criticisms to attend to.

*HOMO ŒCONOMICUS*

Market economy, as is well known, supposes that its participants—*homines æconomici*—motivated solely by greed, possess information as complete as possible on supplies and demands; this analysis resting on a false analysis of human motivations postulates unfair advantage for the better informed. Nothing could be further from the truth: the market does not require participants to be informed; the market alone holds and dispenses information; every transaction rests on a wager, on a probability, not on certain knowledge, and the market is the arbiter of those probabilities; imposing on no one the obligation to participate or to stay away, it is indifferent to the profound motivation of the parties which can be economic or not; it simply places at the disposition of all a computer of matchless power which processes in each transaction an infinite number of informations held in its memory. Democratic by essence, it serves everyone equally. Its sovereignty extends only to the given transaction, but when an effort is made to constrain it by price fixing, in the case of wages or in that of rentals, for instance, the market pronounces the sentence of exclusion but those who intervened have been looking for it. Let's note incidentally that the learned moralists of the Society of Jesus had to recognize in the market price their own concept of just price.



## CHANCE AND NECESSITY

Other critics identify the market principle with a kind of fatalism which deprives individuals of the exercise of free will. Following the market's logic, as is well known, the affluent wins every time and it is impossible to improve the estate of the underprivileged; the market makes everything dependent upon chance or upon necessity and it denies the autonomy of human action. Here again, critics are carried away by their imagination. Natural law "against which nothing can be done" exists in the economy, but it exists also in physics, in mathematics and in all hard sciences. And it is indeed because it exists in those fields that man can act, precisely by leaning on those laws. For nothing else but a natural law, or a constant relation, or a means of predicting the results of an action, enables man to act. Natural law is the fulcrum upon which the lever of will rests, and one can hardly deplore that a lever does not demolish its fulcrum.

True, economic laws are less precise than those of physics, but they have even lost the alluring simplicity which Newton lent them. Still, loose sets of relations (*ensembles flous*) that they have become, their regularity can be relied upon to make action possible on the human plane. They may not apply in all instances but only to those that matter on the same plane; in similar fashion, Newton's law makes possible calculation of estimates satisfactory for common uses, powerless as it is to account for sub-atomic phenomena.

## WHERE IS RIGIDITY?

To sum up, the market is faulted for its harshness and for its conservatism while the shoe is on the other foot: the natural order of liberty addressed by Adam Smith adjusts spontaneously to change while the intervention of vested interests allied with political power generates rigidities hampering the satisfactory working of the market, multiplying inequities and impairing the general welfare. André Gide's character in *The Immoralist* described culture as an excess of life sap which pours over the organism, encrusts and chokes it. Likewise, institutions of social protection



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established in response to the demands of groups, the more effective for being smaller and better organized, are superimposed on the privileges of producers who in the course of time have lost their efficiency; both accumulate on the economy like barnacles on a ship's hull and slow down its advance.

Those privileges, as abundant in democratic societies as they were under the old regimes, introduce all manners of anomalies into a natural system that in order to function properly must remain universal. This explains revolution's siren song and shows why "revolution devours its own children;" it gives a clue to Trotsky's Permanent Revolution and to Mao's Cultural Revolution. Conversely, the rapid progress of Germany and Japan after the last war reveal that destruction is not all loss, when what is destroyed is what prevented society from growing.

### PERMANENT AND PACIFIC REVOLUTION

Does that mean that one should wish for wars and revolutions in order to clean up the ship's hull? It is not necessary to incur the risk of sinking the vessel: there is fortunately in natural economics an agent of revolution, always on the alert but peaceful in its methods; the consumer is this agent and his ever-changing needs orient the activities of producers and keep them fit. Free trade or *laissez-passer* is just the consumer's freedom to realize his desire most efficiently beyond as well as within political borders. Thus the prospect of foreign orders for goods increases the production base and makes economies of size possible, while competition of products of all origins informs enterprises of the possibilities and of the limits of the market. Free trade considerably simplifies the problem of restructuring the economy; free trade, indeed would have nipped that problem in the bud.

### INDUSTRIAL POLICY

Minimum wage is a cause of permanent unemployment and the postponement of bankruptcy through subsidies and aid to sunset industries have their share in it. These measures work at the ex-

pense of firms who can face foreign competition. Further more, “voluntary” quotas accepted by the Japanese and subsidies granted to Chrysler or to Renault, supposed to facilitate adjustments, were mainly successful in increasing rigidity—that of wages in particular—which already afflicted those industries. A higher and higher admixture of assistance always becomes necessary. Whereupon, further inquiry seeks the causes of competitors’ success. Following his ethnocentric bent the inquirer finds the explanation in institutions similar to his own but of superior efficiency. He credits, for instance, the Japanese Ministry of International Trade and Industry (M.I.T.I.) with superhuman omniscience and power and he suggests a duplication of that institution in the framework of an “industrial policy.” Briefly, the latter will consist in the choice of sunrise industries and in the mobilization of public powers for the promotion of the elect.

This idea is fashionable but is not new: governments did not wait for its inventors’ prompting to intervene in business life. To be sure, when legislators, in the United States in particular, intervened against monopoly, or for protection of the consumer and of environment, or to prevent corruption, they patently neglected any consideration of foreign competition; the consequence of their efforts has been, therefore, to place American enterprises at a disadvantage facing that competition. The first order of business is obviously to correct excessive interventionism. But over and beyond this objective other problems arise: supposing that too strict anti-corruption rules—regarding, say, hidden commissions—can be removed, it would be necessary to be clairvoyant in order to discover sunrise enterprises, capable of helping them and courageous enough to liquidate those doomed in any case to drop behind. Not to mention difficulties attending the liquidation of fifty per cent of American or European automobile industries and the effective promotion of new activities, the main problem would be to forecast the winners. What criterion could serve? The “powerful” M.I.T.I. tried to discourage Toyota from exporting; Concorde, Plan Calcul, coal and other planning failures in France are well known, and one might recall a futurist study of the New Deal era which overlooked data processing’s development (I.B.M.’s Thomas Watson himself long hesitated before engaging in electronics), the usage of rockets, penicillin and, of course, nuclear energy, notwith-

standing the availability at the time of those techniques' scientific foundation.

Forecast, aid and liquidation are most difficult functions, far above governments' ability to perform. Well, these functions are exactly what the market in a free-trade environment performs spontaneously every day: the market is the promoter of sunrise industries; it condemns sunset activities in last resort and its condemnation is self-enforcing; and all that because, alone, it holds the information necessary to choose the elect. The market would spare us impossible decisions, for instance whether we should favor electronic appliances which will some day take people out of offices or encourage building trade to construct new ones. To be sure, this very example reveals the strength of the market's opponents: this strength resides in the immense weight of habits that tend to consolidate economic rents. While public powers do not let themselves be guided by the market in their industrial policy, it is hardly likely that they will be capable of implementing arbitrary choices; eventually they must either abandon the idea of restructuring industry or let it take place under pressure of foreign importations. It may be then that other structural problems—those of Third World countries and those of money—will be solved at one stroke. Should, as a matter of fact, the only countries capable of offering an outlet for distressed goods set an example by discounting the remedial virtues of mercantilism, Third World countries' enthusiasm for import-substitution will fade away and, with a common effort to cut protectionism and bureaucracy down to size, the confidence of investors will be restored while currencies carried by trade flows will regain stability. Then both financial and production crises will be solved at the same time.

#### PEACE AND DISARMAMENT

All this is a dream but it is sometimes useful to dream. Let's dream indeed about the threat imposed on humanity by its redundant arsenals and in particular by nuclear weaponry. Such musing in a new context may suggest some approach to a mind-boggling problem. Free-trade apostles in the 19th century, Cobden, Bright and others, looked to it primarily as an instrument of peace. Their

hopes should not be lost to the present world. The relationship between protectionism and militarism is close: both belong to the same family of behavior and from the former to the latter, through economic warfare, the path is slippery and swift; as shown before, militarization is fatal to production as protection is fatal to trade. Conversely, would peace necessarily follow the establishment of free trade?

Except that free trade cannot abruptly replace present commercial policy, any progress made in that direction will serve peace and such progress is the only practical means of securing peace. Did not France and England make it up in 1860, France and Germany, nearly a hundred years later, after the conclusion of commercial arrangements? True, it would be naive to believe that trade, the personal links which it establishes and the interdependence thus created would suffice to avoid international conflicts; but this interdependence and those contacts, while they do not secure peace, at least, they make it possible. Beyond that, the contribution of free trade to *détente* is of more subtle nature. First, it places the economic growth of nations on the sound and enduring basis of their natural advantages, it prevents the piling up of privileges which place enterprises under the dependence of governments and puts the latter's finances in jeopardy, it secures currencies in the cradle of trade and it facilitates recoveries in economic cycles. By securing a prosperity more stable, free trade denies governments a pretext for seeking abroad an escape from domestic woes. Not only freedom of trade affords innovative solutions or political problems most challenging, but by maintaining the concept of national sovereignty within correct boundaries, it takes off the edge of sovereignty and scales down the causes of conflict: Arabs and Jews are marvelously complementary on the economic plane, and if their age-old family quarrels can be resolved their best hope resides in this correlation; the Soviet Union and the United States, on the other hand, arouse in each other anxiety the deeper, the more obscure their reciprocal threat; insulation contributes a great deal to that obscurity and the foreign trade monopoly is a feature of this insulation: when trade is hampered, cultural relations become vulnerable and when public powers monopolize trade, the totalitarian State recognizes no other reality than the reality of the sword.

It is above all from the psychological point of view that free trade introduces a new prospect in international relations. Should public attention shift to trade, should commercial questions occupy media, scope will be taken from public and from private violence. By all means the most important effect of progress towards free trade would be to make true disarmament feasible. The reason is the identity of negotiating methods for trade liberalization and for disarmament. Both are based on reciprocity and the reciprocity concept is narrower in the case of weapons since sacred interests of nations are at stake; so narrow, indeed, that the prospect of a compromise on Euromissiles or on strategic weapons has become doubtful. Any progress can be discounted as long as a unilateral gesture—a gesture without reciprocity—remains anathema, as long as it has not been understood that a disarmament gesture implies its own reciprocal benefit. Now, this is true of international trade since “concessions” leading to more importations bring direct advantages to consumers and an indispensable incentive to producers, but it is true as well, although more difficult to understand, in the field of weaponry, for the possession of new weapons is not without inconvenience nor their renunciation without advantages. Should, therefore, progress towards free trade demonstrate the feasibility of unilateral economic disarmament, a blow will be struck against the current prejudice against unilateral military disarmament. The example of unilateral arms reduction compatible with national security requirements being the best hope for peace, free trade remains today what it could have been yesterday, the instrument of peaceful revolution.

#### A FEW STEPS TOWARDS FREE TRADE

If it is clear that free trade has a place in the practice of nations as well as in their rhetoric, how did it come to pass that intelligent beings determined to master their destiny have failed to recognize the opportunity offered to them to challenge exclusionism and mercantilism, the common link in most causative chains of the evils at their door steps? The reply to that question is in itself a program for action.

Exclusions triumph through the superior power of small groups

representing concrete interests, compared to that of the general interest which is diffuse and enjoys only mediocre support by each participant (Mancur Olson: *The Logic of Collective Action*, Harvard University Press, 1965). True, the cause of free trade lacks glamor and someone has yet to be found to lay down his life, or more modestly to go to jail for it; the very idea would be ridiculous. But the main reason for the political weakness of free trade's cause is rather the deep-seated reluctance to fight for a public good that will become available to all. In order to promote free trade, therefore, it is far from sufficient to espouse its theory, practical means of implementation have to be found. And there arises a twofold problem. Full freedom of transactions cannot be established at one swoop; it is too different from any of the existing economic systems, be they liberal or authoritarian, backward or advanced. There may be cases, in the matter of drugs for instance, where "cold turkey" is the best policy, but elsewhere it might be disastrous: what is for example the proper rate of withdrawal from wage indexation or from rent control? How can one make sure after the failure of "orderly marketing arrangements" that any legitimate measure taken in order to spread the effect of tariffs' or quotas' removal will not perpetuate them?

The problem is not only one of degree, but also of method. Repeated initiatives resting on a correct analysis of free trade's benefits have begotten new obstacles. Thus, Vergennes' treaty, signed between France and England in 1786, under unfavorable circumstances—the forthcoming breakdown of the French monarchy—deepened the gap between the two countries; the effect of the Cobden-Chevalier treaty of 1860 was limited by the fall of the Second Empire, and its long-term consequences must be deplored since it served as a prototype for reciprocity agreements that confirm the old prejudice that free trade is feasible only if all nations become free traders. By the same token, the pervasive method of making concessions to mercantilism in order to avoid a worse type of mercantilism can only give currency to the fallacy upon which it rests. Customs unions and other regional treatments of the trade problem turn as well into compromises harmful to intended liberalization: the European Economic Community had fortunate consequences including better political relations among former hereditary enemies but it elevated mercantilism to the



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regional level, agricultural mercantilism in particular, which is obviously a very doubtful advantage. No method of liberalization involving a compromise with exclusionism is acceptable. These very difficulties define the orientation of a campaign aiming at free domestic and international exchange. The goal will be a gradual introduction of unconditional free trade. Superficially this is a contradiction but should free traders be adamant in their position, the introduction of liberalization measures in national policies can be gradual. As a first step, convinced supporters should be identified; their creed, if not their religions, will be free trade as a moral philosophy informing human behavior and making it efficient by extending to social groups and to nations the non-exclusivity rule of individual morality. The campaign will first assail international trade restrictions and aim, in the long term, at the removal of domestic exclusionism. And its program will be purged of compromise.

Such constraints considerably limit the number of candidates but they will be the source of their strength as well. The objective, indeed, is not to create an ephemeral opinion landslide but to change opinion in depth and can be achieved only by the intervention of a small number of convinced activists possessed with the means of action. Such activist personalities will organize within the framework of each nation for the propagation of their faith and for seizing upon every opportunity to turn the policy of their government away from exclusionist measures. It is only, indeed, in a national perspective that opinion can be influenced and solely in the development of each national policy that opportunities can be found for action. The movement will be international, nevertheless, in so far as the effect of each campaign conducted in its natural framework will serve as multiplier for the success of others. This multiplier will be the indispensable lever of a movement which must overcome skepticism instilled by a long practice of reciprocity: progress in each country will serve to convince foreign skeptics.

Can such a movement succeed? Can one hope that free trade will rule international relations and responsibility, social rapports? The answer is "yes" in so far as the survival of societies is secured by their adjustments to the environment.

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