

How Free Trade Triumphed and Made Europe Great

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We are in the midst of the centenary of the First World War, which was fought from 1914 to 1918. But, in fact, the true first modern world war enveloped Europe and other parts of the globe more than a century earlier from 1791 to 1815, during which first Revolutionary and then Napoleonic France was at war with virtually all the nations of Europe.

Death and destruction followed everywhere as the French armies invaded and occupied countries and then were resisted and driven out. Historian Robert Mackenzie explained the conflict in his 1882 history of the nineteenth century:

At the opening of the Nineteenth Century all Europe was occupied with war. The European people then numbered one hundred and seventy million, and of these four million were set apart, by their own choice or the decree of their governments, to the business of fighting. They were withdrawn from the occupations of peace, and maintained at enormous cost, expressly to harm their fellowmen. The interests of peace withered in the storm; the energies of all nations, the fruits of all industries were poured forth in the effort to destroy.

From the utmost North to the shores of the Mediterranean, from the confines of Asia to the Atlantic, men toiled to burn each other's cities, to waste each other's fields, to destroy each other's lives. In some lands there was heard the shout of victory, in some the wail of defeat. In all the ruinous waste of war produced bitter poverty; grief and fear were in every home ... Peace, it has been said, is the dream of the wise, but war is the history of man.

Economic Warfare to Beggar-Thy-Neighbor

Matching the physical warfare of armies clashing and conquering peoples and places, the combatants introduced methods of economic warfare as well. In 1806 and 1807, Napoleon imposed what has become known as the Continental System, under which the French government attempted to restrict the importation of any goods arriving from Great Britain into countries occupied by or allied with France. In addition, the French navy imposed a blockade around the British Isles in an attempt to prevent war-supporting materials from landing in any British port.

The British imposed their own counter-blockade in the Atlantic and along the European coast against neutral ships trading with France or its allies. Soon there emerged a debate within British political and commercial circles as to whether or not it did any really serious harm to Britain's material well-being if it was not able to trade with many of the countries on the European continent, including France.

After all, it was argued that Great Britain was a productive and efficient nation filled with industrious people in agriculture and manufacturing. What essential material loss was suffered from this lack of trade? It was true that there might be some goods and materials that could not be produced or found within the British Isles. And there might be some goods that, indeed, could be purchased for less from some nations at a lower cost.

But the fact was that Great Britain had an absolute advantage in the production of many of those goods previously imported. That is, the British producer could make any one of those products at a lower or equal "cost" in terms of time, labor and resources, than any of the foreign countries from which those goods were obtained in the past. Thus, British producers could supply them just as well, and less expensively, so that there was no great loss from the inability to trade with other nations. Indeed, Britain might even be better off.

The "Wonderful Opulence" from Freedom of Trade

This was challenged by a number of political economists, of whom the most important were Robert Torrens, James Mill, and David Ricardo. James Mill (1773-1836), in his *Commerce Defended* (1808) reminded his readers that individuals and nations only trade with each other when the costs of making something at home is greater than purchasing it from another in a different location or foreign land. Mill explained:

The commerce of one country with another is in fact merely an extension of that division of labor by which so many benefits are conferred upon the human race. As the same country is rendered the richer by the trade of one province with another; as its labor becomes thus infinitely more divided, and more productive than it could otherwise have been, and as the mutual supply to each other of all the accommodations which one province has and another wants, multiplies the accommodations of the whole, and the country becomes thus in a wonderful degree more opulent and happy; the same beautiful train of consequences is

observable in the world at large, that great empire, of which the different kingdoms and tribes of men may be regarded as the provinces.

In this magnificent empire too one province is favorable to the production of one species of accommodation and another province to another. By their mutual intercourse they are enabled to sort and distribute their labor as most peculiarly suits the genius of each particular spot. The labor of the human race thus becomes much more productive, and every specie of accommodation is afforded in much greater abundance.

By this means, a country such as Great Britain, James Mill continued, may far better fulfill not only a provision of its essentials and necessities, but conveniences and luxuries that would raise the standard of living of all, including that of the common members of the society far below those of wealth and aristocratic landed possession. It actually served as an effective means to reduce the economic inequalities present in society by making more and less expensive goods available to the “working class.”

Comparative Advantage and the Benefits for All from Trade

In addition, Mill and David Ricardo argued that while a country like Great Britain may have an absolute advantage in the production of many goods over other countries, nonetheless, British producers were most likely more efficient and productive at some things compared to others, in relation to potential trading partners. Great Britain would be better off if it specialized in those lines of production, therefore, in which it had a comparative advantage, and buy other goods from less efficient producers in other countries.

The concept of comparative advantage was made most famous, perhaps, through its presentation in David Ricardo’s *The Principles of Political Economy and Taxation* (1817), though both Robert Torrens and James Mill had explained the general idea before him. Ricardo, too, emphasized the general benefits arising from a freedom of trade:

Under a system of perfectly free commerce, each country devotes its capital and labor to such employment as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labor most effectively and most economically; while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn [wheat] shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

With a slight variation on the example given by Ricardo about comparative advantage, suppose that an English worker can produce one yard of cloth in four hours and takes one hour to harvest a bushel of potatoes, while an Irish worker takes 12 hours to manufacture that yard of cloth and two hours to harvest a comparable bushel of potatoes. England clearly

is three times as productive as Ireland in cloth production and twice as productive in harvesting potatoes.

But equally clear is the fact that England is comparatively more cost-efficient in cloth manufacturing. That is, when England foregoes the manufacture of a yard of cloth, it can harvest four bushels of potatoes. But when Ireland foregoes the manufacture of a yard of cloth, it can harvest six bushels of potatoes.

If England and Ireland were to trade cloth for potatoes at a price ratio of, say, one yard of cloth for five bushels of potatoes, both nations could be better off, with England specializing in cloth manufacturing and Ireland in potato farming. England would receive five bushels of potatoes for a yard of cloth, rather than four bushels if it grew and harvested all the potatoes it consumed. And Ireland would receive a yard of cloth for only giving up five bushels of potatoes, rather than the six bushels if it manufactured at home all of the cloth it used.

Properly understood, the theory of comparative advantage shows that all individuals and all nations may find their place at the global table of commerce and trade. That both the “strong” and the “weak,” the most and less productive and efficient, each may find a niche in the international division of labor by which all of humanity may improve their circumstances by mutually bettering the conditions of others in an encompassing world market. Britain, therefore, was worse off than it materially and economically could be due to government-imposed trade barriers and restrictions that hindered the free and competitive association among men.

The Corn Laws Tighten the Trade Restrictions

However, when Napoleon was defeated in 1815, rather than an easing of the regulations and controls over trade, the British government intensified them. It was feared that with the coming of peace, and an opening of international trade with the European continent, Great Britain would be “flooded” with cheap agricultural imports that would “ruin” the landowners, many of whom were the landed aristocracy.

Thus, in 1815, Parliament passed the Corn Laws, establishing a high sliding import tax on foreign grown wheat. That is, the lower the domestic price of wheat was to decline, the higher the import duty on foreign wheat. Or the other way around, only as the domestic price of wheat went up could any foreign supplier of wheat find it possible to sell wheat in Great Britain after paying a slightly reduced import tax, and still make some profit from doing so. The protectionist trade barriers not only kept the cost of food high for the average worker, but they also made it costly to import other raw materials and resources from abroad for British manufacturing, which limited the cost efficiencies of industrial development for both British domestic sales and export business.

The Anti-Corn Law League and the Case for Free Trade

In 1820, a group of British industrialists issued a Merchant's Petition declaring that they were “against every restrictive regulation of trade, not essential to the revenue, against all duties

merely protective from foreign competition." In 1830, Sir Henry Parnell, a longtime chairman of the finance committee of the House of Commons, published a book entitled *On Financial Reform*. In it, he declared:

"If once men were allowed to take their own way, they would very soon, to the great advantage of society, undeceive the world of the error of restricting trade, and show that the passage of merchandise from one state to another ought to be as free as air and water. Every country should be as a general and common fair for the sale of goods, and the individual and nation that makes the best commodity should find the greatest advantage.

In 1836, the Anti-Corn Law Association was formed in London, which in 1839 was renamed the Anti-Corn Law League in Manchester. For the next seven years, under the masterful and powerful leadership of Richard Cobden and John Bright, the league fought unstintingly for the repeal of the Corn Laws and for the establishment of total free trade in the British Empire. Throughout the cities, towns, and villages of Great Britain, Anti-Corn Law League chapters were opened. Hundreds of thousands of dollars in voluntary donations were collected to fund rallies, meetings, public lectures, and debates. The league organized a vast publishing campaign of books, monographs, and pamphlets advocating the repeal of all protectionist restrictions and the freeing of all trade and commerce from government controls.

Richard Cobden and the Call for Unilateral Free Trade

From the beginning, in making his case for free trade, Richard Cobden (1804-1865) saw the breaking down of trade barriers as a powerful avenue for depoliticizing human relationships. By privatizing all market transactions between individuals of different countries, he said, free trade would assist in removing many of the causes of war.

"As little intercourse as possible between Governments," Cobden declared, "as much connection as possible between the nations of the world." To emphasize this, the slogan of the Anti-Corn Law League became "Free Trade, Peace and Good-Will Among Nations." Furthermore, Cobden and the Anti-Corn Law League made the case for unilateral free trade. Years later Richard Cobden explained:

We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better, for we discovered so much suspicion of the motives of England, that it was lending an argument to the protectionists abroad to incite the popular feeling against the free-traders ... To take away this pretense, we avowed our total indifference whether other nations became free-traders or not; but we should abolish Protection for our own selves, and leave other countries to take whatever course they liked best.

Sir Robert Peel and the End to the Corn Laws

In 1841, Sir Robert Peel (1788-1850) became prime minister for the Tory Party, determined to maintain the Corn Laws as a cornerstone of British foreign economic policy. But through one of those ironies of history, the man appointed to lead the defense of protectionism ended up advocating and overseeing the abolition of protectionism in Great Britain.

Over the next several years, Peel's government lowered and, in some cases, eliminated many of the trade restrictions on manufacturing and industrial goods, but he would not reduce the trade barriers on agriculture.

Under the unrelenting arguments of the free traders, Peel finally admitted, in 1843, during a debate in the House of Commons, "I am bound to say that it is our interest to buy cheap, whether other countries will buy cheap or no."

In 1845, of the 813 commodities on the import tariff restriction list, 430 were placed on the free-trade list. But, still, Peel was unwilling to give way on the Corn Laws. But in the fall of 1845, the worst rains in living memory hit the British Isles, and the domestic food crops were devastated. Food supplies declined, bread prices rose dramatically, and the potato harvest was destroyed in Ireland, threatening mass starvation.

Young boys could be heard in the cities saying, "I be protected and I be starving." Daniel O'Connell, a leading Irish member of Parliament, led demonstrations in Ireland, in which a cannon would be dragged through the streets to which was attached a sign saying, "Free trade or this."

In November 1845, the leaders of both the Tory and Whig parties came out for repeal of the Corn Laws. In January 1846, Robert Peel told the House of Commons that the Corn Laws would be abolished. On February 27, the resolution was approved, and the Corn Importation Bill left the House of Commons on May 16, after passing on the third reading. The Duke of Wellington speedily ushered the bill through the House of Lords, and free trade became the law of the land in Great Britain on June 25, 1846.

Angered by his surrender to the free traders, the protectionist Tories forced Sir Robert Peel to resign from the position of prime minister the very same day free trade was triumphant in Britain. In his final speech before stepping down, Peel declared that he hoped that whatever government was now formed, it would continue the "application of those principles which tend to establish a freer intercourse with other nations." And Sir Robert Peel went on to say:

If other countries choose to buy in the dearest market, such an option on their part constitutes no reason why we should not be permitted to buy in the cheapest.

I trust the Government ... will not resume the policy which they and we have felt most inconvenient, namely, the haggling with foreign countries about reciprocal concessions, instead of taking the independent course which we believe conducive to our own interests. Let us trust to the influence of public opinion in other countries — let us trust that our example, with the proof of practical benefit we derive from it, will at no remote period insure the adoption of the principles on which we have acted, rather than defer indefinitely by delay equivalent concessions from other countries.

The cultivation and spreading of the ideas of economic liberty and free trade over many years meant that when a crisis came in the form of the torrential rains and the ruining of the British crops, the intellectual and policy environment had been sufficiently prepared to persuade even many in the ruling protectionist Tory party that only freedom of trade and unhindered commerce could both alleviate the hardships of the poor and starving, and show the way to rising prosperity for all after the crisis had passed. It highlights that it is often the particular and unique convergence of ideas and circumstances that bring about significant change – for both good and bad.

Within three years — by 1849 — not only were the Corn Laws gone, but also were the remaining Navigation Acts carried over from the eighteenth century that had required goods being imported into Britain to be carried on British ships. From then on, both goods and merchant vessels from any land could arrive in Great Britain "as free as air and water," as Henry Parnell had wished it to be in 1830.

The Free Movement of Men, Money, and Goods

Great Britain became the first country in the world to institute a unilateral policy of free trade. For the rest of the nineteenth century — indeed, until the dark forces of collectivism enveloped Europe during World War I — the British Empire was open to the entire world for the free movement of men, money, and goods.

Its economic success served as a bright, principled example to the rest of the globe, many of whose member countries followed the British lead in establishing, if not complete free trade, at least regimes of much greater freedom of trade and commerce.

British free trade policy helped to usher in the age of nineteenth-century free trade, and fostered what has been called the classical liberal era of “the three freedoms” which only came to an end with the First World War in 1914. The German free market economist Gustav Stolper explained these three freedoms in his book, *This Age of Fable* (1942), written while in exile in America during the Second World War:

They were: freedom of movement for men, for goods and for money. Everyone could leave his country when he wanted and travel or migrate wherever he pleased without a passport. The only European country that demanded passports (not even visas!) was Russia, looked at askance for her backwardness with an almost contemptuous smile. Who wanted to travel to Russia anyway? ...

There were still customs barriers on the European continent, it is true. But the vast British Empire was free-trade territory open to all in free competition, and several other European countries, such as the Netherlands, Belgium, Scandinavia, came close to free trade.

For a time the Great Powers on the European continent seemed to veer in the same direction. In the sixties of the nineteenth century the conviction was general that international free trade was the future. The subsequent decades did not quite fulfill that promise. In the late

seventies reactionary trends set in. But looking back at the methods and the degree of protectionism built up at that time we are seized with nostalgic envy. Whether a bit higher or a bit lower, tariffs never checked the free flow of goods. All they affected was some minor price changes, presumably mirroring some vested interest.

And the most natural of all was the free movement of money. Year in, year out, billions were invested by the great industrial European Powers in foreign countries, European and non-European ... These billions were regarded as safe investments with attractive yields, desirable for creditors as well as debtors, with no doubts about the eventual return of both interest and principal.

The nineteenth-century victory of free trade over Mercantilism and Protectionism represented one of the great triumphs in the history of classical liberalism. It was the achievement of the Scottish Moral Philosophers and those that are now referred to as the "Classical Economists" in demonstrating the spontaneous order and coordination arising from a free, competitive market system – Adam Smith's "system of natural liberty" and the cooperative gains for all through a system of division of labor.

The momentous importance in human history of this triumph is not always appreciated for what it was: a crucial institutional transformation that heralded the beginning of the material and cultural improvement of mankind through the private and peaceful associations of humanity for the mutual betterment of the mass of mankind. This transformation continues today, even in the face of the reactionary return to paternalistic government and political interference with human life over the last century.