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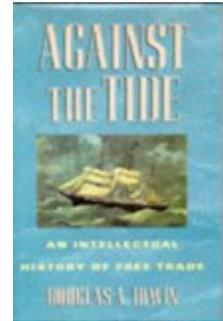
in the Humanities & Social Sciences



Douglas Irwin. *Against the Tide: An Intellectual History of Free Trade*. Princeton, N.J.: Princeton University Press, 1996. xii + 274 pp. \$29.95 (cloth), ISBN 978-0-691-01138-7.

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Douglas Irwin has written the history of “free trade”—as an idea and as an economic policy—for our generation. His dominant organizing principle is that the move toward freer trade in economic policy has been “against the tide”—that there have been lots of reasons over the ages why free trade should not have triumphed as economic policy, and that its triumph to date is somewhat miraculous: akin to a river running uphill.

Mercantilism and Free Trade

Free trade as an idea was born in the shadow of mercantilism in early modern Britain. It is not the case that before Adam Smith’s *Wealth of Nations* thinkers rejected the idea of trade: the notion that countries, like individuals, stand to gain from specialization (producing what they make best and most efficiently) and exchange is powerful, fundamental, and obviously true. But before Adam Smith thinkers overwhelmingly believed that imposing delicately calculated restrictions on international commerce could boost an economy’s resources and achieve important non-economic goals as well. For example, even Adam Smith wrote that “defense is more important than opulence.”

It is hard from our current perspective to make much sense of the mercantilist writers. They were aggressively pro-export—sharply critical of restrictions that limited export. Irwin sees their doctrines as having four components:

A moral argument that foreign-produced luxuries were not worth consuming, and that the state should (for the good of those who would buy French fripperies if unrestrained) restrict imports of foreign-produced luxuries.

An unemployment-equilibrium argument that allowing imports to increase would throw people out of work.

A belief that manufacturing should be promoted to enhance economic development—perhaps with some recognition that this argument required that the benefits to society from expanding manufacturing be greater than the profits to the manufacturer.

Non-economic goals: “defense more important than opulence.”

Against mercantilism, Adam Smith established a strong presumption in favor of the economic benefits of free trade. David Ricardo nailed the case down with his exposition of “comparative advantage.” Ever since, trying to construct a coherent intellectual case for trade protection has been like trying to roll Sisyphus’s stone up the hill.

This is not to say that people have not tried. The case for free trade is not absolute. It is limited by:

Worries about the distributional effects of trade—in which case free trade can boost real national product but erode social welfare if it shifts the distribution of income and wealth in an unfavorable direction.

Worries about the effect of free trade on the terms-of-trade—in which case finely tuned protectionist measures that erode the total surplus from trade can nevertheless garner a larger surplus for the home country (under the assumption that foreign governments do not retaliate).

Worries about the effect of free trade on high-externality industries—in which case policies that restrict trade might boost external benefits by more than enough

to offset the lost gains from trade.

But as Irwin eloquently argues, all these limitations of the case for free trade are fragile. In many cases trade protection is a poor second-best policy, to be avoided because there are other more direct and less costly alternative policies that will produce higher economic welfare. In other cases, close scrutiny reveals that the reasons for rejecting free trade “have foundered under the weight of the manifold qualifications that narrow the range of circumstances under which the argument is valid.... [For example] the strategic use of trade policy to shift rents between countries... hinges critically upon numerous assumptions about competitive behavior and market structure.”

Irwin thus concludes—I believe correctly—that arguments for protection are fragile and frail compared with the presumption that free trade is a good thing. To do better than free trade requires an enormous amount of knowledge and policy-making skill on the part of the government, skill that can only make things a little bit better if protectionist policies are properly applied—but could make things a lot worse if misapplied.

The Rent-Seeking Society

However strong the *intellectual* case for free trade, the victory of free trade as an economic *policy* is still quite surprising. We can run through—Irwin runs through—the standard rent-seeking society arguments:

Beneficiaries from protection know who they are.

Each beneficiary from protection gains a lot more than each consumer loses.

Beneficiaries from protection can organize easily.

The logic of politics is not the logic of market exchange—but the logic of power exercised, and identifiable favors done for those who can someday return them.

For all these reasons, governments seeking to assemble coalitions of politically powerful elites *should* be powerfully attracted by individual protectionist proposals. There is a principle that the set of economists is dense in the space of possible policies: for every small number epsilon, for every policy theta, there is someone who can wear a tie, speak with authority on television, and make semi-coherent arguments that some policy that is within epsilon of theta is in fact optimal. When the stakes are large the returns to being a tame politician or a tame intellectual for protectionist interests are large too, and the labor market works well enough that demand calls

forth supply—and we have Pat Choate claiming with an apparently straight face that five million American manufacturing jobs are “at risk” if the United States lowers its tariffs on Mexican imports from an average level of 3 percent to zero.

And it was here that I found myself wishing that Douglas Irwin had written a slightly different book. For I do not believe that the production and reproduction of intellectual arguments proceeds independently of the rest of social life, and I think the links between the strength of protectionist ideas and the potential benefits to those with the wherewithal to fund the creation and distribution of protectionist ideas are very strong and very interesting. But Irwin remains at the level of the intellect. He does not descend to the sociology of ideology at all—and I think that what is a very good book is less than the Platonic Ideal of a history of free trade because of its limited scope.

In addition, there is powerful feedback from the political economy back to the case for free trade. The very strength of the political-economic pressures toward protection generated in a rent-seeking society serves to powerfully reinforce the case for free trade. Douglas Irwin quotes Paul Krugman that the most powerful case for free trade today “‘is not the old argument that free trade is optimal because markets are efficient’ but rather ‘it is a sadder-but-wiser argument for free trade as a rule-of-thumb in a world whose politics are as imperfect as its markets.... to abandon the free-trade principle in pursuit of the gains from sophisticated intervention could therefore open the door to adverse political consequences that would outweigh the potential gains.’”

The Future

Irwin concludes his book with a resounding triumphalist sentence: “Yet if the historical experiences described here continue, free trade will remain one of the most durable and robust propositions that economic analysis has to offer for the conduct of economic policy.”

I find myself much more pessimistic—not that I think that free trade does not deserve to flourish, but that I doubt that it will flourish. There are two reasons to be skeptical of the future of free trade:

The first reason is that the East Asian economies that have grown so impressively in the past two generations have not been committed to free trade. There are arguments that they have been committed to free trade in what matters most for production (if not for consumer

welfare): “a free-trade regime for exports and for imports for exporting industries” is the phrase often used. There are arguments that they have been lucky not to have been badly hurt by their deviations from free trade. There are arguments that they have managed to find a set of trade restrictions that actually does promote high-externality activities and rapid growth.

Which is true is unclear.

What is clear is that for the next generation opponents of free trade will say: “Japan, Korea, Taiwan, etc. did not adopt free trade—and look how fast they grew.” And at the level of economic policymaking and public ideology, this statement has the potential to erode a lot of support for free trade.

The second reason is that arguments for protection today hinge much more on the duties that First World

consumers owe Third World workers than on the links between protection and First World prosperity. Does the restriction of imports that violate fair labor standards give employers in developing countries the right incentives to improve working conditions and boost social welfare? Or does it just destroy jobs in developing countries—making the life chances of the poor even worse? It is not clear. But consumers in the First World do have moral obligations toward workers in developing countries, and the economic theory of free trade sheds little light on what policies are best in light of these moral obligations.

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