

Review of:

*Douglas Irwin's Against the Tide: An Intellectual History of Free Trade*

by Mario J. Crucini

Irwin's book begins with a quotation of Harry Johnson (1977): "*The proposition that freedom of [international] trade is on the whole economically more beneficial than protection, is one of the most fundamental propositions economic theory has to offer for the guidance of economic policy.*" Irwin's history chronicles the theoretical arguments for and against free trade and the emergence of a consensus in its favor that Johnson's statement so eloquently summarizes.

The book does not cover the implication of Johnson's statement for the conduct of commercial policy. As someone with an interest in both trade theory and commercial policy, I thought I would be cheated out of half of the story. After reading the book, I have arrived at an entirely different conclusion. Irwin's decision not to delve into the history of commercial policy contributes to the clarity of his message.

The voices that we hear in *Against the Tide: An Intellectual History of Free Trade* are recognized as belonging to scholars keenly interested in their subject matter. What makes this book a joy to read is the sense that Irwin has assembled everyone in a single room to debate each issue on its merits. An invitation is extended to an economist yet unborn if only to ensure an argument progresses or dies a timely death, and an economist from the past arrives to the chagrin of some whippersnapper who has taken his argument out of context. For the most part, however, the book follows a historical chronology which is divided into two major parts.

The first part, titled: "Origins of the Free Trade Doctrine," traces the debate from its origins in the writings of philosophers, clergy, and political leaders, into the mercantilist literature, and ends with the contributions of the classical school. The second part of the book: "Controversies about the Free Trade Doctrine," devotes a chapter to each of eight arguments against --- or qualifications of --- free trade policy. The final chapter: "The Past and Future of Free Trade," summarizes the book and places the free trade debate into a broader context.

The structure of Irwin's book also serves to highlight its two main conclusions. First, that the writing of the classicists represented an abrupt improvement in the formalism of economic analysis. Second, that the forward progress of economic theory eventually revealed weaknesses in many of the arguments against free trade, eroding their appeal, while increasing the consensus in favor of free trade.

Frustration will meet readers who choose to search the first few chapters for economic analysis. I chose a more passive approach and found historical perspective conveyed in an entertaining manner. Consider Plato's (1930, 153) contribution to international economics dating from about 380 BC: "The result [of such a division], then, is that more things are produced, and better and more easily when one man performs one task according to his nature, at the right moment, and at leisure from other occupations." Compare this with the statement by Horace (1960, 27) reflecting on God's apparent lack of foresight: "In vain has God in his wisdom planned to divide the land by the sea's separation, if, for all that, ungodly ships are crossing the water that he placed out of bounds," and one gets a sense of the diversity of opinion in the earliest recorded thoughts on foreign commerce.

During the mercantilist period the debate shifted toward more pragmatic issues, in no doubt influenced by the vast expansion of international trade. Here, more than elsewhere in the book, Irwin must carefully navigate the channels separating arguments rooted in self-interest and economic arguments possessing merit. On occasion, we see the futility of this endeavor. An example is the widely held view that a favorable trade balance is desirable in its own right. Was this a reflection of how a merchant would profit from buying low and selling high or had mercantilists happened upon an analytical result that total consumption possibilities were augmented by a favorable trade balance? I am persuaded by Irwin's account that these are questions to which we may never know the answers because the analytical details are rarely, if ever, to be found in the mercantilist's writing. One is left with the image of an intellectual landscape littered with mercantilist pamphlets awaiting the tidy logic of the classicists.

The next two chapters cover the basic logic of the classical arguments in favor of free trade. The first chapter deals with Adam Smith's contributions while the second introduces us to his eminent contemporaries: David Ricardo, John Stuart Mill, Robert Torrens, James Mill (John Stuart's father), John Ramsay McCulloch, and Nassau Senior. The contributions of this group will be familiar to students of international trade: development of national output as a measure of national welfare and its application to tariff policy; how protective duties, by diminishing competition, increase domestic prices and encourage inefficient management; how free trade expands the extent of the market bringing about added productivity advantages in terms of the division of labor; and how comparative, rather than absolute, costs are the key to understanding the gains from trade.

While the coverage of the classical school is generally very well done, two issues are bothersome. The first has to do with the novelty of Smith's (and later Ricardo's) contributions to free trade doctrine. The introduction to the chapter on Adam Smith's contributions contains a prominent quotation of Schumpeter (1954, 184): "the *Wealth of Nations* does not contain a single analytic idea, principle, or method that was entirely new in 1776." Given that the book is not primarily concerned with the attribution of credit I found these references disturbing to the continuity of the text. Furthermore, the discussion is too limited to present a balanced case. No reference is made to what general equilibrium theorists identify as one of Smith's most original contributions: a poetic expression of a competitive market system. Second, each chapter that follows with an argument against free trade is at least as long as "Adam Smith's Case for Free Trade." I would have liked to have seen a more balanced approach. I temper this criticism only because the classical case inevitably gets elaborated upon in the context of subsequent arguments against free trade.

In the second part of the book, the reader is treated to many novel insights and an increasingly familiar cast of characters. At the time Robert Torrens first made his argument that a unilateral tariff could benefit the imposing country, economists assumed the bilateral terms of trade were halfway between autarkic relative prices. Torrens's argument gained currency as efforts were made to formalize the determination of the terms of trade beginning with supply and demand analysis of Mills, continuing with Edgeworth's (1894) use of Marshall's offer curves, and culminating in Harry Johnson's (1950, 1951) precise mathematical formulation of the optimal tariff. Of course, it was not long after the initial formulation of the argument that it was cast into doubt as an effective policy tool upon recognition that retaliation would likely follow. Unfortunately, Irwin does not treat the reader to game theoretic contributions to this issue before closing the chapter.

Irwin takes the infant industry argument from cradle to grave. James Steuart supported the use of tariffs for this purpose with few qualifications, John Stuart Mill gave qualified support only to later recant, while Smith remained vehement that the source of foreign industry's superiority was irrelevant to the proposition of free trade. John Rae (1834) was among the first to consider the role of externalities, his contribution relating to technology transfer. However, few arguments in favor of protection to infant industries dealt with the opportunity cost of encouraging an infant industry and none anticipated Robert Baldwin's (1969) classic critique: that tariff protection creates exactly the opposite incentives required to drive an industry toward higher productivity that formed the basis for the argument in the first place.

Before reading Irwin's book, I would have guessed that Manoilescu's wage differential argument related to the fear of imports from low-wage countries, but it actually prescribed the use of tariffs by developing countries to shift labor from low-wage agriculture to high-wage industry. Many years earlier, Henry Martyn had pointed out that wage differentials might be a function of productivity differentials, but no one seems to have recognized its relevance to the debate. Ohlin (1931) stated his objection with characteristic insight by posing the following question: "Why does labor not shift across the sectors on its own but instead requires import duties or other forms of intervention to bring about the reallocation?" Later Meade (1955) introduced the notion of externalities to the labor market in a way that might rationalize the primitives of Manoilescu's case, but he, and later Bhagwati and Ramaswami (1963), established that in many cases where externalities led to inefficient resource allocation tariffs were rarely, if ever, the first-best policy response.

To ensure that the lessons of history are not lost on macroeconomists, Irwin includes Keynes's views on trade. In 1923, Keynes sounds as unequivocal about free trade as did Adam Smith in 1776, but by the early 1930's Keynes began advocating tariffs as a solution to British unemployment. Keynes argued that a tariff would be stimulative in the aggregate if wages were downwardly rigid, the exchange rate was maintained, and labor was underemployed. While Lionel Robbins, T.E. Gregory, Arnold Plant, J.R. Hicks, and others, had collaborated on a book which did not concede that classical theory was inoperative under conditions of unemployment, Keynes was unmoved. It was Hicks who conceded a great deal in assessing the state of affairs in 1951, concluding that free trade had been called into severe question by the theoretical changes brought about by Keynes.

Irwin goes on to argue that the erosion of the macroeconomic case for tariffs was a byproduct of flexible exchange rates freeing up monetary policy to stabilize prices. The difficulty I see with this argument is that much of the liberalization of tariff levels since the 1930's had occurred well before industrialized countries moved to flexible exchange rates. Surely policymakers had come to recognize the harm done to international trade by the retaliatory tariffs of the 1930's.

As an overall assessment of the book, I offer the reader this last piece of information: *Against the Tide: An Intellectual History of Free Trade* is located on a prominent shelf in my study between the *Wealth of Nations* and *Free To Choose*.

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