Against the Tide: An Intellectual History of Free Trade

by Douglas A. Irwin

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Toward the end of the eighteenth century, a moral philosopher from northern Europe gave birth to a mode of inquiry that would eventually become the predominant paradigm in the social sciences. Did *The Wealth of Nations* hatch fully grown from the mind of Adam Smith, as Athena burst from Zeus' brow? No, Irwin's history shows that Smith's ideas were grounded in a British intellectual tradition whose roots were in premercantilist thought. Drawing on a wealth of early pamphlets, Irwin argues that many prototypical economic ideas were first developed by government officials and merchants confronting practical problems about commercial policy and overseas trade. But Irwin is careful to make explicit at the outset that this work is an intellectual history of free trade, not a discussion of how politicians have abused the ideas of some of the greatest economists and protected the special interests of their constituencies.

Indeed, what makes this volume so charming is that there is no doctrine on which there is wider assent among modern economists. One's ideas about free trade and comparative advantage are the Rorschach Test for our discipline. At the end of the twentieth century, if you do not believe in free trade, you had better be a pretty good applied game theorist. Otherwise, you run the risk of being branded "not a real economist" and exiled to a vaguely unfashionable academic address, as happened to Robert Reich recently when he returned from service as the Secretary of Labor. Likewise, the undergraduate who doesn't understand comparative advantage risks failing Principles of Economics.

One of the pleasures of reading an intellectual history of free trade is to encounter the great thinkers and grand ideas in the broad sweep of the history of economic thought. Two of the finest philosophers of the English-speaking world, Hume and Mill, bent their mind to these topics, struggling to clarify how international trade affected a country's well-being. And the moral philosopher Smith's compelling metaphor, the invisible hand that guides a self-interested individual to promote the social good, is drawn so that he can make his case for free trade. This doctrine endures precisely because some of our best minds have developed its deeper implications.

Irwin shows that Henry Martyn clearly understood comparative advantage at the beginning of the eighteenth century, and we can now see in Smith's faith in the market as a social institution the early roots of the Two Welfare Theorems. Also, Mill devised the compensation principle largely to make the case for free trade, and the reader learns that Pareto developed his criterion in reaction to Mill's and then applied it incorrectly in the defense of free trade. These are the shoulders of giants.

Torrens, who understood that productive efficiency was as important as allocative efficiency, adumbrated and then Ricardo popularized the notion of comparative advantage. Did Torrens sully his great insight by also sensing that tariffs might improve the terms of trade? No, Edgeworth developed the offer curve to clarify the argument, and the foundations of general equilibrium theory and cooperative game theory are a felicitous byproduct. A century later, our profession still benefits from this exchange.

One also encounters lesser minds in these pages. Manoïlescu, an erstwhile Romanian Minister of Industry and Trade, made an incoherent case for protectionism by asserting that modern economies had wage differentials between sectors. His convoluted thinking spurred Viner to develop the model of specific factors. Then Lipsey and Lancaster's Theory of the Second Best, one of the great insights of our field in this century, showed unequivocally that one must be agnostic about the effects of tariffs on an economy with distortions in the labor market. Likewise, Keynes' sophomoric fixation with an overvalued pound sterling led him to make arguments in favor of temporary protectionism as a response to the widespread unemployment of the Depression. The ultimate effect of these ideas was the design of the international institutions that have promoted free trade and fostered unprecedented global prosperity in fifty years since Keynes' passing.

There are two minor deficiencies in Irwin's history. First, it is obvious that he is limited by his linguistic ability to an analysis of texts in English. Thus Ibn Khaldoun is not mentioned in the chapter on early ideas on foreign trade, the contributions of Antonio Serra to mercantilist thought are neglected, and the discussions of the intellectual history of trade in classical antiquity focus solely on Greek and Latin writings that have been translated into English. Second, although Irwin's economic instincts are quite sound, there is at times a curious lack of economic theory as a unifying artifice to bind together the sometimes disjointed ideas that history presents. For example, Irwin puts mathematical notation on only one page, and here it serves simply to summarize a present-value calculation contrasting the costs and benefits from imposing a temporary tariff in protecting an infant industry! And in a book that deals so centrally with ideas in applied general equilibrium theory, it is surprising that there is no mention of Walras and little discussion of the origin of Pareto's fundamental ideas.

But the joys of reading this work are quite substantial indeed. One is often left with the peculiar impression that great minds were somehow baffled about issues that now seem so clear to us. Of course, this is the technique of the intellectual historian; the original ideas seem at times confused only because we are now the beneficiaries of two centuries' accumulation of scientific knowledge. The book's last chapter looks forward to a future for the idea of free trade, and it calls properly for a greater emphasis on fuller empirical measures of the benefits of free trade. This appeal is in keeping with the broad positivism that underlies Irwin's scholarship and, to a large extent, the history of the idea of free trade itself.

Still, there is a deeper sense in which the idea of unfettered trade holds sway on us economists. Free trade may be part of the Lakatosian hard core of our scientific program, and we might put less faith in statistical measures of Harberger triangles than in the admittedly imprecise notion that the invisible hand serves to check individual self-interest and thus to promote the public good. Hume and Smith were right: this may not be the best of all possible worlds, but it is easy to see how political impediments to voluntary trade can make it worse.