## Book Reviews

# Free trade is an aberration, not the norm, in economic history

by Leonardo Servadio

**Economics and World History: Myths and Paradoxes**
by Paul Bairoch
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Usually, professional economists believe that their analyses are "objective" because they are based on numbers, and therefore they tend to accuse the representatives of different schools of thought of harboring ideological proclivities. In reality, there is no science which is so tainted with subjectivism as is classroom economics, in which theories, however organized into numerical structures and systems of graphics, are always based on unstated preconceptions and partisan interests. This book has the great merit of confronting the issue of the "mythologies" on which today's classroom economics is based. In so doing, the book's author, a professor of Economics and History of Economics at the University of Geneva, Switzerland, moves an important step in the direction of truth and honesty, which makes of this essay something rare in the world of economics publications.

We will summarize some of the most significant conclusions which are drawn or which can be drawn from the accurate statistical-historical analysis by Bairoch, then summarize some of the arguments he presents.

The gist of the book is that it proves that economic liberalism is another name for British economic imperialism; that, far from favoring economic development, liberalism has always been the cause for economic recession in history; and that industrial development could only take place thanks to protectionist policies. Bairoch shows that what is today variously known as the "Third World" or the "developing sector" actually became underdeveloped precisely because of the imposition of British liberalism; whereas North America and Western Europe could develop, precisely because they rejected liberalism throughout their history, up until the 1960s.

Among the mythologies that Bairoch challenges, there is the one that has had great success among Marxist circles: that industrial economic development of the Western world was possible thanks to the exploitation of the Third World markets and raw materials. Bairoch shows that those countries which did not have colonial enterprises were able to develop faster than the colonialist powers and, further, that the relation between colonial power and colonies was bad for both parties, because it hindered the extent to which the industries of the colonial power were able to develop (for example, Great Britain), while it destroyed whatever industrial potential existed in the colonies.

### Protectionism vs. liberalism in 1929

Let us look more closely at some parts of Bairoch's analysis. Being an historian, Bairoch looks at the present from the vantage point of the past. His analysis starts off from the crisis of 1987, which, he explains, evoked the ghosts of the crash of 1929. At that time, the dominating concern was to fight protectionist policies, because the 1929 crash was considered to have occurred precisely due to the prevalence of protectionism during the 1920-29 decade. One of the reasons for this mistaken belief, was that the 1927 meeting of the League of Nations in Lausanne, Switzerland, set out to modify the trade policies of that time, which were considered too protectionist. In reality, the weighted average of tariffs remained tendentially the same as in the years preceding the First World War: 24.6% in 1913, as against 24.9% in 1927. Furthermore, as a consequence of the 1927 conference, tariffs were generally reduced. In other words: There was no particular protectionism at that time. Between 1924 and 1929, the volume of world exports increased by 6%; it was not a time of rampant liberalism in world trade, but one cannot speak of particularly strong protectionism either, since that level of protectionism had been predominant throughout the industrial countries, not only in this century, but also before.

If one cannot say that protectionism caused the 1929 crash, possibly the contrary is true: It was as a result of the 1929 collapse that the Smoot-Hawley Act brought the level of U.S. industrial tariffs up to as much as 60% in some cases, and to an average of 45-50%; this led to an increase of tariffs internationally.

The general problem of neo-classical economists is that they believe in the dogma that free trade is the rule, protectionism the exception. The reality is the reverse: The rule in the economic history of the industrialized sector is protectionism, and free trade is the exception. As it becomes clear with the development of Bairoch's argument, protectionism tends to favor industrialization, whereas free trade tends to destroy it.

On May 15, 1846, the Corn Laws were abrogated in Britain. Those laws, dating back to 1815, protected local grain production from foreign imports, and had been fought by a free trade lobby called the Anti-Corn Law League, founded in 1838 in Manchester by industrialists who relied on the opportunity of importing cheap grain to push forward Great Britain's status as the world's strongest industrial economy: Bairoch relates that its level of industrial production per capita surpassed the rest of Europe by 250%. In other words, being a new industrial exporter, it had all the advantages in pushing free trade. Britain started to propagate the free trade line internationally: In 1855, the Belgian Association for Tariff Reform published a call inspired "by the results of economic science and by the experience of real facts, in particular, in England." Bairoch notes that similar groups emerged in several countries, often created under British direction, precisely to push free trade ideology, and sometimes they succeeded in their attempt, even if the general tendency of the time was the reverse. Before 1860, only a few countries (Holland, Denmark, Portugal, and Switzerland, and later Sweden and Belgium) had adopted a free trade policy.

In 1860, Great Britain signed a free trade agreement with France, a necessity for Britain which had a trade deficit in agricultural products, with that country. The agreement was considered in France as a coup d'état, since the parliament was opposed to it, and the agreement was established by means of secret negotiations between Napoleon III's envoy Michel Chevalier (a follower of Saint-Simon) and Britain's Richard Cobden. That agreement was the first of a series which Britain would establish with several European countries, known as the "Cobden agreements."

But the period of free trade did not last long. As early as 1879, Germany reintroduced a new system of tariffs and a new wave of European protectionism began in 1892, when France also reintroduced protective tariffs.

## LaRouche on protectionism

The most rigorous refutation of British free-market liberalism, is that developed by physical economist Lyndon LaRouche, the foremost exponent today of the "American System of Political Economy." Philosophically, LaRouche's contributions go far beyond the work of Alexander Hamilton and the cameralist school, to demonstrate the relationship between economic growth, scientific and technological progress, potential relative population-density, and the creativity of the human individual.

In a speech during his campaign for the 1996 Democratic Party Presidential nomination, in Manchester, New Hampshire on Feb. 6, LaRouche took up the issue of protectionism vs. free trade, outlining a concept of "national economic security."

Citing the U.S. war mobilization of the 1930s and 1940s, he said: "We had to have a policy of protecting our vital national industries. We had to have supplies of helium and other kinds of essential materials, so that we could not be cut off from those supplies needed for a mobilization for peaceful or other purposes. We had to protect those industries, by tariff protection and trade agreements, which were struggling to emerge as the future industries of the United States. . . .

"Every patriotic President, was for the protective tariff. The Whig Party, out of which the modern Democratic Party comes, as well as all decent Republicans, comes out of that tradition, of the Clay-Carey Whigs of the early 19th century; of John Quincy Adams and James Monroe, and Lincoln, and people like that. McKinley was part of that, too. The McKinley Tariff of 1890, to protect American industry.

"Under those conditions, we emerged repeatedly as a leading world power. We established the highest level of income in the world, under these policies. We didn't hurt anybody by doing that. These protectionist policies were good for us, and they were good for others who imitated us in doing it."

Among LaRouche's writings on physical economy and the bankruptcy of classroom economics, see these that appeared recently in *EIR:* "Why Most Nobel Prize Economists Are Quacks," July 28, 1995; "Non-Newtonian Mathematics for Economists," Aug. 11, 1995; and "More 'Nobel Lies,' " May 31, 1996. See also "Why Lincoln Built the Nation's Railroads" and "How Lincoln Made Farmers Scientific," by Anton Chaitkin, *EIR,* Feb. 9, 1996.

## Case study: the United States

Outside of Europe, the United States was decisively protectionist throughout the 19th century. The highest level of protectionism coincided with the first wave of industrialization of the country in the early decades of the 19th century; in the 1873-74 period, the average tariffs were on the order of 43-44%, and in 1879-81, the average rate of tariff for imported industrial goods was around 40%. In 1842 there was a policy of liberalism which drew the tariffs down to around 25% for industrial products. Again, in 1846, the tariffs were reduced by the Democratic Party to a level of around 10-20%. The Civil War saw the British-backed liberalist South against the protectionist North, and the victory of Lincoln was the victory of protectionism: the victory of those who wanted industrial development.

Bairoch shows that throughout its history, until after the Second World War, the United States had strict protectionist policies. Yet most economics books present the U.S. policy as free-marketeer, citing examples, such as the October 1913 Underwood Tariff, which dramatically increased the number of goods which could be imported freely into the United States, and significantly reduced the average level of tariffs. But, in reality, this law had nearly no effect, because the First World War erupted a few months after its approval. Immediately after the war, with the return to power of the Republican Party, tariffs again increased to around 30% for industrial products. "The idea that the United States is in the forefront of the free-market policies is so strongly widespread that the tariff of 1913, even if it nearly had no practical effect at all, is generally mentioned as an index of the level of the U.S. tariffs prior to the First World War," writes Bairoch, regarding this clear example of how economists base themselves on mythologies.

## 'Ocean of liberalism'

If what today is known as the industrialized Western world was predominantly under protectionist policies, was it the same in the colonial countries (later known as the Third World)? No, says Bairoch, because here we have a dramatic difference: "If we get out of the ocean of protectionism of the developed world, there is no doubt that the future Third World was an ocean of liberalism," a liberalism which was directly imposed on the colonies or "strongly suggested" to former colonies which were nominally independent. The British Empire functioned exactly that way: It ensured that all the products of Great Britain could be imported duty free into the colonies, whereas, the products of the colonies were subject to measures which distinctly favored the industries of the imperialist power. This went for India, for all the Ibero-American countries, for China, for Thailand, and for the Middle East. A series of treaties, significantly named "unequal treaties," regulated the relation of those countries to the industrialized sector: The majority of those treaties were signed between 1870 and 1950, especially under British pressure. A typical example is Ibero-America. Britain had backed the independence of the Ibero-American states from its Spanish and Portuguese competitors; in exchange it imposed the "unequal treaties" on trade, the first of which was signed with Brazil in 1870. The treaties opened the economies of those countries up to the free introduction of British and European goods. At the same time, those treaties did not guarantee free access in the British markets to the future Third World country's production.

This is the key to why the underdeveloped sector is underdeveloped. Without exception, the countries which became the Third World were all dominated by British liberalism. At the same time, in the course of the 19th century, the advanced sector was predominantly protectionist; hence the difference.

Does free trade policy favor the development of international trade? No, as Bairoch demonstrates. In 1892 France introduced strong protectionism; in the ten years prior to that, its exports grew 2.1% per year and the GNP grew 1.2% per year. In the first ten years after the protectionist shift, exports grew 1.9% per year and the GNP grew 1.3% per year; the following decade shows exports growing 2.2% per year and GNP 1.5%. Even stronger differences occur with the case of Germany: After the introduction of new protectionist measures in 1885, exports went from an average 3% growth per year in the previous ten years, to 2.4% in the subsequent decade and 5.7% in the second decade, whereas GNP went from 1.3% in the previous decade, to 3.1% in the subsequent decade, and to 2.9% in the second decade. With these kinds of statistics (and many more), Bairoch proves that the growth of international trade has more to do with the development of industrial production, which protectionism allows, than with the free trade afforded by reduced or no tariffs.

Again, in the "ocean of liberalism," i.e., in the countries which would become the Third World, free trade policies destroyed their productive capacities. The case of India is typical: After 1813, the last Indian monopoly on cotton was suppressed and the import of textile products was liberalized. As a consequence, 1 million yards of cotton fabric were imported in 1814, 51 million yards in 1830, and 7,050 million in 1890. The Indian producers closed shop, as technological advances in Britain allowed productivity there to vastly surpass the productivity of the Indian firms. The textile industry disappeared in India. The same happened in Ibero-America as a result of similar policies implemented by Britain, with the participation of the United States and France.

Was it necessary for the Third World to remain backward in order for the industrialized sector to advance? To the contrary, answers Bairoch: The level of exports to the future Third World countries was always relatively small, aside from the case of imperial Britain; and, in addition, the level of exports from the future Third World countries to the industrialized countries was insignificant until the 1950s.

In the case of Britain, which at the beginning of the 19th century was so much more advanced than the other European countries, the fact that it had at its disposal so many markets in the colonial world, delayed the development of its industry, because it could easily export to those captive markets without the need for technological improvements. It was this situation which brought Britain from being the most highly developed economy of the world at the beginning of the 19th century, to being surpassed by Germany, at the century's end. So, in reality, the colonized countries did not develop faster than the other economies; to the contrary, they developed more slowly. The economies of Great Britain, France, the Netherlands, Portugal, and Spain, throughout the 19th century, were characterized by slower growth than those countries which were not colonial powers, such as Belgium, Sweden, Switzerland, or the United States. The same is true in the 20th century: As Belgium joined the club of the colonialist powers, its rate of growth decreased.

What happened in the Third World? At one point, the nations of the South were at approximately the same industrial and economic level as what would later be the industrialized sector. At the end of the 18th century, the economies of the future Third World were comparable with those of the European countries (see below).

India was a net exporter of cotton yarn in the 18th century; by the middle of the 19th century, its cotton industry was totally destroyed. Deindustrialization took place as well in steel production: By the end of the 19th century, local steel production had fallen so much, Bairoch estimates, that some 90% of the national steel industry had been destroyed. China met a similar fate: Its once powerful textile industry was so destroyed, that at the beginning of the 19th century it was able to satisfy no more than 50-70% of domestic requirements. On the destruction of the Turkish industry, Bairoch quotes British Prime Minister Benjamin Disraeli: "In Turkey they introduced the free market and what was the result? It detroyed some of the best manufactures in the world."

A table in Bairoch's book dramatically presents the progression of deindustrialization in the Third World. It indexes industrialization, as production of industrial goods per capita, for the underdeveloped versus the developed sectors. In 1750, the level of industrialization was 7 against an index 8 for the developed countries; in 1830, the indices were, respectively, 6 and 11, dropping to 7 against 35 in 1900; 5 and 135 in 1953; and 29 and 412 by 1990. Making this difference even more dramatic, the indices for the Third World include the economies of South Korea, Singapore, Taiwan, and Hongkong, whose productivity is the highest in the world; in fact, the majority of the industrial production of the Third World is concentrated in those "Asian tiger" countries and Brazil. In 1750, the future Third World accounted for 70-76% of the industrial production of the world. In 1973, the percentage of the Third World industrial production had fallen to 7-8%. In the meantime, the population of the Third World, proportionately, had dramatically increased.

Here we have the beautiful results of the "free market": in reality, the new name for imperialism.

Bairoch leaves his conclusion to a quote which John Kenneth Galbraith wrote in an article on "The Rush to Capitalism," for the *New York Review* of Oct. 25, 1990 (p. 51): "In my opinion, some, and perhaps most of the advice offered today to the states of Central and Eastern Europe, originates from a view of the so-called capitalist economies, of economies based on free enterprise, which has nothing to do with reality. Nor would those economies have survived, if they had shared it. What is being offered is an ideological construct which in its entirety only exists in the minds and in particular in the hopes of those who offer it. It has no relationship to reality."

In other words: Free market economics is an ideology whose aim is domination over countries and populations. So, in the light of the broad historical overview, which clearly shows that the free market economy is actually an anti-industrial instrument, in whose interest is it to run up the flag of free-market economics? The only answer which can be derived from the historic analysis of Bairoch, is that it was in the interest of the British Empire. It is overall an honest book and a very interesting analysis, which could open up serious reflections in the academic world, if that world were capable of honesty and independence from the dominating financial powers of today.

*Editor's Note: Mr. Servadio is a Milan contributor who wrote his review based on the just-released Italian translation of Mr. Bairoch's book,* Economia e Storia Mondiale. *The quotations he uses are re-translated into English from the Italian, and are not from the University of Chicago Press edition.*