

COMMENT & ANALYSIS

Special relationships and free trade do not mix

A new commitment to unilateralism in free trade would help to make the west appear less hypocritical to potential allies



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Anyone charting the lows of George W. Bush's presidency – and, for that matter, Tony Blair's leadership of Britain – will want to include the pair's parley this month in Crawford, Texas. There Messrs Bush and Blair cynically plotted an agreement under which Britain might receive an exemption to the new US steel tariffs.

So much for Anglo-American leadership and magnanimity in the area of that great Anglo-American ideal, free trade for all.

Robert Zoellick, the US trade representative, then proceeded to add insult to injury by accusing China, which is talking of bringing a complaint about the tariff before the World Trade Organisation, of preparing to join "the running dogs of European imperialism". You have to wonder how that went down.

OK, so Mr Zoellick was joking. But the underlying issue is fundamental. What is the best way to achieve freer trade? Is it by conducting trade diplomacy,

dispensing advantage and disadvantage, and retaliating against protectionism? Or is it by unilaterally loosening tariffs and restrictions, foregoing retaliation, and hoping other countries will follow your example?

In the past century, national leaders and parliaments have tended to prefer the multilateral and diplomatic option. The rules of the World Trade Organisation codify trade retaliation. But the furious writing of international treaties was not always the preferred mechanism. Indeed, it was Victorian Britain that gave us the most successful example of a unilateral free trade policy, through its repeal of the Corn Laws and the general liberalisation that followed.

The details of Corn Law repeal are worth remembering, if only to remind ourselves how far we have veered from the unilateral free trade path. In

1816, parliament passed the Corn Laws, the aim being to protect the landed upper class by safeguarding their crop prices.

The damage that resulted was not only economic but murderous. Following the potato blight, Britain's Irish citizens were unable to afford bread at the protected prices and saw their infants starve. The general distress galvanised Britain's trade liberals, who, nurtured by intellectual inspiration from the economist David Ricardo, created an Anti-Corn Law League – and eventually forced repeal of the laws.

That brand of liberalism is very different from the Banana War culture that obtains today. The opponents of the Corn Laws understood that free markets would reduce the role of governments, and so increase general prosperity. As Richard Cobden of the Anti-Corn Law League put

it, there must be "as little intercourse as possible between governments".

Cobden explained the superiority of unilateral free trade thus: "We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better. We avowed our total indifference whether other nations became free-traders or not." The tactic worked: other British protections fell away and other countries loosened tariffs in turn, leading to the west's first golden age of commerce.

But Britain does not provide the only example of unilateral free trade. A century and a half ago, most US government revenue derived from tariffs. But many US lawmakers recognised the domestic damage that their tariff regime caused. Consider Grover Cleveland, who won the presidency on an anti-tariff plank, at his 1889

inauguration. He sought to "reinstat[e] the self-confidence and business enterprise of our citizens by discrediting an abject dependence upon governmental favour".

What stands out is Cleveland's clear assessment of the damage of selective domestic trade policies. To judge by Mr Zoellick's internet home page, which last week highlighted "new information on product exclusions under Section 208" (steel protection) for individual US firms, it is safe to say that such doubts have long been forgotten.

Another great American free trader was Cordell Hull, who in his early years as a freshman Congressman from Tennessee, called Theodore Roosevelt a hypocrite. Roosevelt, he said, had made a career as a trustbuster, yet failed to strike out at "the main source of their constant creation, the protective tariff".

The unilateral movement,

of course, eventually transformed into our multilateral trade culture. Cobden later wrote a trade treaty with France, and Cordell Hull was one of the fathers of that early forerunner of the WTO, the 1934 Reciprocal Trade Agreements Act. (Hull also led the campaign for the introduction of income tax).

The justification for the switch to multilateralism remains understandable: by creating trade entities, from those of the 1930s to the European Union, leaders sought to prevent war. There was another goal here as well, as Douglas Irwin, author of a new book, points out.* By moving trade out of the domestic debate and into the foreign policy arena – as with the Trade Promotion Authority debate in the US today – lawmakers hoped to reduce the politicking and persuade legislative bodies to go along with trade agreements in toto, rather

than writing special exceptions.

Still, you have to wonder whether the near-exclusive pursuit of multilateral free trade has not reached what Mr Irwin calls "a point of diminishing returns". In one of the few areas where the US has remained largely a unilateral free trader – telecommunications – it has hardly lost out.

A new commitment to free trade unilateralism would help to make today's great powers appear less hypocritical in the eyes of allies and potential allies. It would certainly help in areas of Africa where radical Islam is spreading, and which depend on textile exports. And it would benefit steel and banana consumers everywhere.

* *Free Trade Under Fire*, Douglas Irwin (Princeton University Press)