

**The priceless boons of  
global free trade**

*We may choose to browse complacently like doomed if civilised dinosaurs amid the fading glories of the European Project, or we can shape up confidently and flexibly to the opportunities and challenges of the global economy.*

By LORD HARRIS OF HIGH CROSS

**Adam Smith Forever**

When Continental European leaders scorn "Anglo-Saxon economics" as being mainly interested in *mere* free trade, they display a failure to grasp the revelation by Adam Smith<sup>1</sup> about "the nature and causes of the wealth of nations". From direct observation of the birth of the industrial revolution, the shrewd Scot identified the primary source of wealth (his word was 'opulence') as neither population, nor capital, nor innovation, nor even natural resources. Rather, it was spontaneous cooperation of adaptable individuals through the division of labour.

If you had to summarise Smith's teaching on the source of wealth in a single word, that one word would be *trade*. From the primitive example of specialisation in pin-making, Smith pointed to the multiplication of output by the wider geographical divisions of labour whereby each country and every district concentrated on producing the goods or components for which they enjoy the greatest comparative advantage. Let all specialise in what they are best fitted to produce most efficiently, and thereby offer the best value in exchange for what they need to buy from others!

**Farewell Self-Sufficiency**

In essence, all economic advance has been driven by a dual process: first, the progressive application of specialisation; and second, its necessary accompaniment,

**Farewell Poverty**

In the absence of such impediments as tariffs, quotas, subsidies and exchange control, free trade both reduces and - subject to transport costs - tends to equalise the prices of all tradable goods and services throughout the market. Likewise, with free movement of people, the wages paid to equivalent labour and the profits on investments of equivalent risk would diverge only to reflect differences in the efficiency with which they were deployed. In short, trade enables poorer countries to "trade up", as most vividly demonstrated by the elevation of "cheap Chinese labour" of pre-war Hong Kong towards European wages and standards, despite the territory's lack of natural resources.

**Farewell Narrow Nationalism**

Free trade inevitably brings "ever-closer union" between individuals as consumers and producers. Indeed, it brings four priceless boons:-

Peace: trade strengthens inter-dependence between people through supplanting narrow economic nationalism by non-discriminatory integration in a single world-wide economy. (Remember the old liberal adage: if goods can't cross frontiers, armies will).

Prosperity: trade offers an unprecedented increase in economic welfare by removing artificial barriers to the most efficient

selling the increased output in ever-widening national and international markets. Trade not only spreads improved technology; through Hayek's<sup>2</sup> "discovery procedure of competition", it also spreads better marketing and management. Trade not only stimulates mobility of capital and labour, it speeds the transmission of knowledge about the most effective means of satisfying the consumer – which Smith saw as "the sole end and purpose of all production".

application of resources.

Economic progress: trade provides a pervasive spur to every kind of improvement through more rapid transmission of information and innovation in goods, services and methods of production and distribution.

Individual liberty: free trade extends personal choice in consumption, lifestyles, investment and employment. This, for economic liberals, is the greatest boon.

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### **Farewell Protectionism**

Markets operate within a legal and institutional framework. A central authority is required to prevent all restraints of trade, and to set and police minimum standards (especially in trade descriptions and labelling). This central authority must be sufficiently powerful to maintain the discipline of free competition against lobbying by producer lobbies (both labour and capital) ever seeking to exploit consumer interest. The competitive order requires strong government, but not big, ever-extending, Brussels government.

### **Private Versus Public Interest**

If trade is the lubricant of wealth-creation, the motive power is nothing more than individual striving. Uncomprehending critics dismiss such striving as "greed and grab". Smith's measured description of the ruling motive probes more deeply:

*The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived ....*

Adam Smith foresaw the myopia with which individuals (both as producers and politicians) tend to advance their own interests. Consider two familiar quotations;

The first on producers:

### **Competition Versus Corporatism**

Liberalism never won the lasting intellectual ascendancy on the Continent which it achieved briefly in Britain during the nineteenth century and rediscovered under Margaret Thatcher after 1979. In 1948, even Ludwig Erhard felt obliged to dilute the "social" market economy in deference to the prevailing European corporatist culture.

"Corporatism" replaces open competition by co-operation, "cohesion", consensus, central authority. Throw in proportional representation and the stage is set for coalition governments based on back-stage deals between political élites who form a cartel to promote a "mixed economy" which Hayek loved to mock as "the muddle of the middle".

### **Flat Earth Economics**

The distinguished German economist, Professor Roland Vaubel, has described how the Commission resisted trade on the basis of "mutual recognition" whereby products and standards acceptable within any member country can be exported freely throughout the common market. Instead, the Eurocrats have exploited the plausible pretext of "harmonisation" to flatten the very differences in costs and qualities on which free trade fundamentally depends. In their eyes, the Single Market is not to be a free market.

*People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.*

The second on politicians:

*...that insidious and crafty animal, vulgarly called a statesman or politician, whose counsels are directed by the momentary fluctuation of affairs.*

And that was in 1776, before MPs turned professional!

Against the myopia of producers (both capital and labour) seeking higher profits or wages through restrictionism, Smith offered competition - the "invisible hand" which compels self-serving producers first to serve the sovereign consumer. Thus competition based on mutual self-interest and shared gains from trade becomes the organising principle of national and international economies.

Differences in national production, labour markets, taxation, social policies and even currencies should be valued as offering further dimensions to Hayek's "discovery procedure" of competition which facilitates instructive comparisons between alternative jurisdictions. In place of this discovery process, we have the imposition of a "level playing field" - a prime example of flat earth economics!

### **Farewell Europe?**

Today, in an era of unheralded technical progress, we Europeans are faced with the age-old choice between Security and Progress. Unless we reaffirm our commitment to progress through global free trade, then revitalised competition from the Americas and the Asia-Pacific region could condemn Europe to economic insecurity, relative decline and even stagnation. Such an outcome would fuel domestic strains and international tensions. By default, we would put in peril peace, progress, prosperity and, not least, national sovereignty and individual freedom.

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1 - Adam Smith (1723-1790), author of *The Wealth of Nations* (1776).

2 - Friedrich Hayek (1899-1992), author of *The Road to Serfdom*, 1944; Nobel Prize for Economics, 1974.

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