



Is the classic view of free trade relevant in our world?

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In an article authored by Daniel J. Ikenson of the Cato Institute entitled “Trade on Trial Again,” It was reported that a group of Cato scholars entertained the question of whether the intellectual debate for free trade had been won. The consensus was that it had been won, since 1776 with the publication of “The Wealth of Nations.” Today nearly all economists agree free trade generates more wealth than any system that restricts cross border exchange. What the Cato confab failed to produce was agreement about whether that question was even pertinent.

What economists visualize and what actually exists in the real world are at substantial variance. Ikenson sometimes sounds puzzled that politicians and businessmen seem totally unimpressed with what intellectuals feel should be the prevailing attitude on international trade. China and other huge nonmarket economies did not exist in 1776. Except for rude, unsportsmanlike players like China the glib generalities of economists are something everyone can agree on. But so what? What guidance does that give us when confronted with a Chinese steel industry over expanded by 300 million tons per year of capacity; and a Chinese leadership totally intimidated by the prospect of the unemployment that would be necessary to correct this gross centralized planning error?

Should we bow our heads, bend our knees and shut down the American steel industry (and others) to bail out the Chinese politicians, all in the name of “free trade?” Is that what Adam Smith had in mind? If we take any other position, is that “protectionist?”

What we don’t need in the face of a serious problem, are longwinded lectures on the proper attitude toward international trade by people living in some dream world that assume that all our trading partners are free market economies that behave like we do. And if that is not the case, we have a clean sheet of paper to start over and make it so. If there has been one specific suggestion out of the free trade crowd in how we should deal with a “rogue” country like China on steel, I haven’t heard it. And I’m still listening.

When our government recently confronted the Chinese about the severe damage their overbuilding in steel was causing in world markets (not just the U.S.) they acknowledged the problem but reported that their plan was to permit “market forces” to function and repair the

damage. (They have learned the jargon!) Next we will be getting free trade lectures from the Chinese economists. If we were to establish a civilization on Mars, we are certainly well supplied with highly educated economists who could design the ideal international trading system that would emulate what Adam Smith had in mind when he wrote “The Wealth of Nations.”

Absent that opportunity, we will have to struggle with crude weapons like trade suits and other mercantilist tactics until a better solution comes along. And it is apparent that China’s behavior in steel clearly prevents any consideration of “market economy” treatment which has been an important Chinese objective. To even seek market economy treatment as China is apparently doing has to be the ultimate inchutzpah!