

From the President

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Globalization and Free Trade

Freedom of trade is really a very simple concept. Each individual should be at liberty to buy from and sell to whomever he wishes on mutually agreed-upon terms. Whether the partners to this trade live next door to each other or are separated by thousands of miles should make absolutely no difference to the logic of the idea.

For thousands of years most people lived, worked, and died within a small radius of the place where they were born. Households and small communities went about the business of life with a high degree of local self-sufficiency. Of course, there was always a limited amount of what today we would call “international” trade even among the ancient Greeks and Romans. But, for most people, goods produced in faraway lands were unavailable because of the natural difficulties of transportation, or were too expensive.

This began to change during the last 200 years. Railways and steamships made traveling easier and less expensive in the nineteenth century. Modern engineering shortened the distances between different parts of the world as tunnels were built through mountains, bridges spanned wide and powerful rivers, and canals were dug across strips of land connecting continents.

But most important, the nineteenth century saw the triumph of classical-liberal

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ideas—ideas that emphasized individual liberty, private enterprise, limited government, and free trade. It was the lowering of political barriers separating peoples and regions that enabled the feats of technology and engineering to bring the world closer together, and allowed men on the five inhabited continents to trade with each other.

Now people could purchase resources and raw materials that before had been far beyond their geographical and financial reach, and invest their capital and labor wherever it seemed most profitable and advantageous. Moreover, the growing number of different finished goods manufactured with those resources could be sold to tens of millions of people everywhere around the planet.

Even with the collectivist forces of the twentieth century, which reimposed political barriers to trade through central planning, regulation, and protectionism, the impulse toward the internationalization of production and trade has continued up until our own time. But the two world wars and the reactionary attempts to coercively establish socialist systems on many parts of the globe created perverse imbalances in the extent and speed of economic development in various countries and continents.

Because the United States was exempt in the twentieth century from the direct physical destruction of war that impacted so many other nations, and because experiments with socialist and interventionist ideas were implemented less pervasively in America than in



many other parts of the world, U.S. economic development and growth dwarfed the rest of the planet in the immediate decades after 1945. America, therefore, had an absolute and a comparative advantage in a wide variety of agricultural and manufactured goods. The American people consumed a large proportion of the world's output because they produced a huge amount of it.

But over the last six decades more and more of the rest of the world have been catching up. During the late 1940s and 1950s, European and Japanese reconstruction overcame the destruction of World War II. In the 1970s and 1980s a small but growing number of countries in East Asia moved toward more market-oriented economies. In the 1990s the crushing weight of socialist central planning was lifted from many countries in Eastern Europe, Asia, and South America. As a result, a growing number of these countries began to rapidly industrialize, increase their production and productivity in agriculture, and improve the quality of their "human capital" through more and better education for millions.

Changing Patterns of Trade

This process of economic development and growth around the world has inevitably been changing the patterns of trade and the comparative advantages of many of the nations that have been or are becoming to a greater extent America's trading partners. Labor and manufacturing specializations that the United States has long been dependent on for employment, income, and profits are now shifting to other parts of the globe. Once peoples and markets on continents outside North America began to become relatively freer and less collectivist—though certainly not *laissez faire*, unfortunately—these changes in the structure of the international division of labor were inevitable.

But besides their inevitability, the changes also are opening healthy and desirable opportunities for hundreds of millions of

people to finally raise themselves out of the poverty that has been the lot of mankind for all of human history. We should hail this as one of the greatest moments in the thousands of years of man's time on this earth.

The United States' place in the global division of labor is also changing. Goods and services that were long taken for granted as being "Made in America" are and will increasingly be available to the American people at lower cost and in better quality and greater quantities from suppliers in other parts of the world. This will require U. S. industry and agriculture to shift over time into a number of different lines of investment and employment. Capital will have to be used in different ways, and workers will have to learn new skills in order to supply the exports that will pay for these better, cheaper, and more plentiful imports. The structure of prices and wages, as well as the relative incomes of some American workers, will have to change to reflect the new and more productive global economy.

By bringing about these changes with competitive flexibility and optimism about a better and wealthier world in the 21st century, the American people will not only participate in a potentially more prosperous future, but will also set the pace for the rising standard of living that can belong to us and countless others around the globe.

The path to this bright economic future is a policy of free trade. Governments—including the U.S. government—do not have the wisdom or ability to guide or assist this process. They can only hinder it with controls and restrictions that slow down progress and serve special interests who don't want to face the future.

The best way for mastering the global challenges and opportunities of our new century is to allow each individual to use his own knowledge and ability in the competitive market, free from the controlling hand of government. Freedom will enable us triumphantly to find our way in the new global economy. □