Why the preaching must never stop: Henry George's and Paul Krugman 's respective contributions to the free trade debate - International Trade
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Introduction

THE TINBERGEN ARCHIVES in Los Angeles, California are a monument comprised of books, lectures, and films--a monument that exists for the sole purpose of honoring the dead. Established to inform succeeding generations about this "century's greatest crime," the destruction of most of Europe's Jewish community, it "preserv[es] the history of the Holocaust and the blessed memory of the Six Million who lost their lives so cruelly and unjustly." Mr. Cal Tinbergen, the Director of the Archives, has assembled media of all types to fortify "the fight against bigotry and hatred." (1) In this never-ending battle Tinbergen and others are driven to spread ideas about tolerance and understanding over bigotry and hatred, so that peace and respect for human dignity someday might prevail in the world.

I admire the clarity of Mr. Tinbergen's vision about who he is and what he does. I imagine he is a man who gets up each morning and sets out on a business routine calculated to fight bigotry and hatred and keep the memory of the victims of the Nazi genocide alive. I, myself, get up each morning, but with less clear goals. My college hires me to teach students how economic theory helps to make the world intelligible, especially for business decision makers. Along the way, I must qualify extreme principles in various ways and then challenge my students with examinations and term paper reports about my lectures. Deep down, however, I want to preach tolerance as well, but economists are not supposed to preach at all (Stigler 1982).

Indeed, there is a long tradition in economic theory that promotes tolerance--based not on religious and moral duty, but on the value of capturing the gains from open trade and exchange. (2) That tradition exalts the middleman or entrepreneur, who discovers new and more valued combinations of resources and legal rights and sees nation-states as administrative regions that can provide frameworks for interregional trade, without themselves becoming salespeople for the trading groups and firms in their regions. When I get this message across to my students, I do indeed teach my students something worthy of comparison with Mr. Tinbergen's crusade against bigotry and hatred.

I teach the gospel of free trade. As a member of a discipline that dates back more than 300 years, I manage to advance several steps beyond Mr. Tinbergen's call for mere tolerance of other peoples, races, and regional cultures. I use a variety of arguments to encourage government officials, politicians, business leaders, trade unionists, and even spiritual leaders to appreciate the importance of commercial exchange and to stop punishing people for engaging in trade and exchange. The Nazi round-up of the Jewish merchants and shop owners for supposedly profiting at the expense of the German people, the slaughter of the Armenian merchants during the first World War for their middleman activities, which had long aroused suspicion among Turks, and the current tensions in Indonesia directed against the Chinese business community accused of causing the Asian currency crisis--all are examples of merchant hatred. (3)

As a student of the market process, I have kind words for the middleman trader who pioneers new trade routes and profits from integrating regions (Block 1976:186-191; Sowell 1998; Lerner 1961:41-48). As an economist, I take the work of the Tinbergen Institute one important step further: I address what happens to living standards in each respective region when trade and commerce are allowed to emerge and take shape in market settings. To an economist it is not enough that the inhabitants of Region A stop slaughtering those of Region B. For people to live dignified lives, they must have comforts. They must have materials to fuel their creative labors so that new shapes can emerge, and they must connect with each other for mutual interest and gain. Because free trade and exchange are so obviously advantageous, officials should tolerate economic activity and not tax, prohibit, or crush the improvements it makes possible. (4)

Economic science admits that from the efficiency point of view there are exceptions to the general rule that free trade is a universal good. The best reasoning in economics uses sets of assumptions to demonstrate that "wisely chosen but always moderate" interventions can result in surprising net gains. (5) Indeed, the study of the exceptions to free trade--the mainstay of the modern trade theory course at a university--sometimes swamps an entire semester's work in trade theory, making the simple case for free trade less obvious and somewhat obscure. Exceptions to any rule should not pile up until they bury the general rule completely (Krugman 1996a:117-125). Free trade is a distinctively human practice. A person's right to trade with others is an important, if not sacred, human right. Governments and others have a correlative duty not to interfere, except to prevent the most egregious forms of behavior. (6) This important point--a point about deontology or moral duty and not merely about efficient exchange--has to be reemphasized in every generation: the preaching for free trade must never stop.

I shall now demonstrate the virtuous character of mainstream economic theory by taking a close look at two important books on the subject of commercial policy. The first was written in 1886 by the great American iconoclast Henry George and appeared under the title Protection or Free Trade. It was published at a time in American history when tariff reform was high on the political agenda; in fact, tariff reform was the leading issue in the presidential election debate of 1888 (Reitano 1994). George tried to persuade organized labor that free trade and not protectionism was in its interests. I shall spend the most time on George's work, outlining its scientific arguments.

The second book about which I have something to say is Pop Internationalism, published more than 100 years after George's book, by the prolific American economist Paul Krugman (1996a). (7) In this book, Krugman does battle with the appalling ignorance of our most prominent political and business leaders and their consultants who were (and still are!) advising the U.S. president in a manner and with language destined to foster a global intolerance of other peoples and their values. Krugman's book, much like George's important book of a century earlier, is a veritable milestone in a continuous tradition of preaching economics. Through his writing, Krugman hopes to battle the ignorance, intolerance, and nativism of those who pretend to watch over the political and economic interests of the community. When joining in this intellectual crusade, students and professors are every bit as sincere and ennobling as the people at the Tinbergen Institute.

Indeed, students and professors wedded to the free trade idea may even surpass the Tinbergen Institute in the area of human rights and tolerance. Whereas Tinbergen asks for tolerance and respect only--a request consistent with economic isolationism and legal geographic segregation, with strict prohibitions on immigration--the discipline of economics has for 300 fertile years broken down the segregation barrier by pointing to the importance of interregional integration as the key to ending war and building wealth (Mises 1963:821-832). In the context of political turmoil and ignorance, leading economic writers have risen up with fine books, manifestos, articles, and speeches to do battle with those actively opposing free trade. In so doing, the profession of economics has ennobled itself. As professionals, economists cannot help but preach the gospel of tolerance in a world that is all too willing to forget tolerance and lapse back into the ethical norms of an age that is older, more violent, and filled with tr ibal superstition and hatred (Hayek 1988).

From this point, I take a careful look at Henry George's 1886 presentation of the free trade idea both in terms of its scientific merit as well as the political context in which it was developed. Then I review Paul Krugman's treatment of the free trade doctrine, although more briefly. In the concluding section I offer some thoughts about the future of toleration. I think a case can be made in favor of unrestricted migration of any people and its culture. In a borderless world, trade would remain a substitute for migration, and migration would become a substitute for trade itself. I argue that it is both fitting and ennobling for economists to take leadership roles in this important plan for development. Again, economists must never stop preaching free trade. The preaching provides a deeper and more detailed background for the strictly scientific account of how trade and exchange promote mutual gain.

George's Contribution to the Free Trade Argument

IT IS DIFFICULT to find any decisive factor in George's background that would explain his appreciation of economic reasoning and his commitment to free trade. (8) George was born in Philadelphia in 1839, but his economic thinking was not of the Philadelphia protectionist variety. George was quite cosmopolitan. He dropped out of school at age 15 and took to the sea as a sailor. After voyages to India and Australia, George became a newspaperman in California during the gold rush period (Barker 1991:3-104). There he saw fortunes won and lost in the speculative gamble over property rights in land and mineral rights. He took up the racist cause of those who wanted to restrict Chinese immigration as well (Barker 1991:122-3). Yet despite his racism, George published an outstanding defense of free trade in 1886, based on the best scientific thinking of his day.

The full title of George's book is Protection or Free Trade: An Examination of the Tariff Question, with Especial Regard to the Interests of Labor. Its purpose was to reach a "common conclusion on [the] subject" of how to raise the wages of labor (George PFT:ix). To many citizens and their political leaders, it seemed obvious that the best way to create jobs was to limit foreign imports. By making imports to the United States scarcer, U.S. families would be induced to purchase domestic products, thereby sparking job creation in the import-competing industries. How could any rational person disagree with this analysis? But disagree we must.

It is wasteful and destructive of liberty to discourage imports. As Adam Smith explained, the purpose of production and trade is to promote consumption (Smith 1976, II: 660). Furthermore, imports are paid for mostly by exports and it is these exports, reflecting a region's comparative advantage, that also create valuable jobs. This point was argued so clearly by the early 19th-century British economists--the list includes David Ricardo, Robert Torrens, James Mill, Mountifort Longfield and others (Viner 1964).

In America there has been a long and professionally acclaimed political tradition opposing free market exchange. I shall lump together this collection of myriad interventions, proposed and implemented, under the rubric "protectionism." Trade policy was a "contentious political issue throughout American history" (Reitano 1994:xxi). The American colonists fought the British because they objected to British mercantilist trade policy, partly on the grounds that it prohibited the fledgling American colonies from installing their own mercantilist policy. In the late 18th century, Alexander Hamilton's Report on Manufactures advocated the use of a protective tariff and other subsidies to build up the industrial (manufacturing) base of the then-developing United States. (9) America was then and remained well into this century a predominantly agricultural region with only a meager sprinkling of urban centers. The tariff crisis of Andrew Jackson's presidency and the conflicts over protecting Northern industry prior to the Civil War combined to make tariffs an extremely controversial issue. Next to the continuation of plantation slavery there was no other issue that so divided America in the 19th century.

As I remarked, Henry George's book was published in the midst of the tariff debate leading up to the Presidential election of 1888. This was the first "national election [in American history to focus] primarily on the tariff question" (Reitano 1994:107). The Republican Party was openly protectionist and insisted that supporting taxes on imports was both profitable and patriotic. The Republicans claimed that such interventions were necessary not only for financing government but also for protecting domestic industry and jobs. It was argued that the common worker should vote for the Republican candidate and reject the "free trade" ideas of the Democratic Party. Indeed, Republican presidential candidate William McKinley demonstrated an absolute ignorance of the theory of comparative advantage when he extolled high taxes on imports because tariffs kept out all "foreign products the like of which [we] are capable of producing at home" (Reitano 1994:103). The Republican Party characterized the Democratic Party and its free trade liberalism as a sinister plot. Free trade, the Republicans said, would pauperize the American worker not only by allowing imports to replace domestic products but also by allowing more Chinese and Eastern European immigrants to enter the United States and lower (real) wages (Reitano 1994:49).

In George's day, the bastion of protectionist thought was Philadelphia, Pennsylvania. Here a large iron and steel manufacturing complex prospered during the Reconstruction period following the Civil War. The Philadelphia factory owners were interested in keeping out those nasty lower-priced imports, and they staunchly backed the protectionist platform of the Republican Party (Reitano 1994:51). But campaign contributions and votes were only parts of the story I am retelling.

The Trustees of the University of Pennsylvania wanted to alter their curriculum to reflect these protectionist sensibilities. As early as the 1869-70 academic year, students had to study protectionism as a graduation requirement. In 1881, the rich businessman Joseph Wharton founded a special school at the University of Pennsylvania to educate future business leaders about the virtues of protectionism. It may be said that "with the founding of the Wharton School [of Business in the 1880s] the [protectionist] views of the Philadelphia business community gained in influence over economics teachings at the University of Pennsylvania" (Sass 1993:229). In 1881, Robert Ellis Thompson was hired to teach the social science course at Wharton. To accompany that course of study, Wharton financed Thompson's main book, Social Science and National Economy (1875). Indeed, the Wharton school and its influential Philadelphia protectionist community remained a bastion against the teaching of free trade up to and after the 1888 election. Needless to say, with the Republican victory of William McKinley in 1896, protectionism won out over free trade. (10)

George quite properly identified the mission of the Wharton School of Business and its pundits as the enemy. He made the faculty the target of his preaching. He wrote that when presenting the protectionist position he would not attack a weak thinker but instead quote directly from the writings of University of Pennsylvania Professor Thompson "who is the latest writer who seems to be regarded by American protectionists as an authoritative exponent of their views" (George PFT:x).

George's principled opposition to protectionism was not without severe costs to his own political career. In fact, George's commitment to free trade over protectionism led to his dismissal by the proponents of various U.S. organized labor movements. For example, the Knights of Labor (KOL) initially endorsed George's ideas in the early 1880s because he supported Irish tenant-farmers in their battle against absentee landlords. Manifestations of such support were his 1881 The Irish Land Question and his correspondence from Ireland with several leading U.S.-based Irish newspapers. But even as George spoke more and more about the merits of free trade, most trade unionists were protectionist. They especially feared that the admission of more immigrants would mean lower wages. Not only did the unionists wish to guard the borders against newcomers, but they also wanted to exclude foreign goods and services. George's advocacy undoubtedly cost him support among the Knights who, after a brief honeymoon with George, lost interest in his economic ideas (Weir 1997:426).

George had long been disgusted with the immoral ways in which wealth could be won at the expense of the common laborer, based in part on his early experiences during the California gold rush. As a result, in 1879, he wrote one of the most popular and inspired books that has ever been written in economics and in any language, the lovely, and indeed at places lyrical, Progress and Poverty. "[It] was the most widely read of all books in economics; in the English-speaking world in the last quarter of the nineteenth century, [in fact,] it was not [Karl] Marx but Henry George who was the talking-point of all debates among fiery young intellectuals" (Blaug 1986:84).

The thesis of Progress and Poverty, which played an important part in George's advocacy of "true free trade" in 1886, was an explanation of why poverty should coexist with such vast aggregation of wealth as was proceeding apace in America in the 19th century. According to George, those who possessed the exclusive rights to land and other natural formations such as minerals, waterfalls, even picturesque hamlets on majestic mountains, should not unjustly profit from these possessions (Backhaus 1997:453-474). If they worked hard to improve the nature-given structure, they were entitled to their hard-earned wages and even entrepreneurial profits. They were not entitled to profit from the mere rise in the scarcity value of the unimproved land. Speculative passive gains were, for Henry George, unjust. According to George, the wild bull-market frenzy of American land policy, combined with the never-ending quest for monopoly privilege, had brought about a tendency in America for the overall national income to rise and for the share of the national income going to workers to fall. Poverty coexisted with plenty because the land and other natural resources were being held in speculative hoards that promoted an artificial scarcity that inured to the benefit of the monopolistic landlords.

One remedy for this inequality was for the state to assess land (but not improvements) and then levy a tax on owners equal to its annual rental value. The rents, explicit and implicit, would then become part of the public troves. Other taxes, such as the inheritance or capital gains tax and the various specific taxes on industrial output, which discourage entrepreneurship and creativity, could be eliminated once the tax on the unimproved value of the property was in place. The best tax, according to George, encourages economic progress, and a tax on the unimproved value of natural resources would accomplish that goal. Today, few other taxes have been devised with as small a negative effect on incentives as what has come to be known as Henry George's "single tax." Indeed as late as 1978, Nobel Prize winner Milton Friedman stated that "in [his] opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago" (cited in Blaug 1986:86). With Friedman 's endorsement, Progress and Poverty may yet prove to be a bombshell for fiscal reform with a slow fuse.

From Henry George's point of view, poverty in America could hardly be blamed on cheap imports. It was, rather, the result of the private appropriation and subsequent monopoly ownership of nature's legacy. George's Protection or Free Trade is a curious amalgam. First, it contains the leading scientific arguments from the French and English economists of his day supporting free trade. Second, it ties these arguments together with his ideas that poverty is caused by those who claim not only exclusive rights to land and other resources but to their market value as well.

George's Scientific Arguments

THE SCIENTIFIC ARGUMENTS Henry George offers in Protection or Free Trade can be summarized as follows:

1. Trade is not a zero sum game. George recognized that voluntary trade is mutually advantageous. It is not a one-way street in which only the rich get richer and the poor get poorer. In response to those American protectionists who insist that free trade is a "good thing for rich [developed] countries but a bad thing for poor [less developed] countries [because it] enables a country of better-developed industries to prevent the development of industry in other countries," George harked back to the insights of the English classical school of political economy. He reminded his readers, as David Hume had done in 1742, that "free trade is voluntary trade. It cannot go on unless to the advantage of both parties, and, as between the two, free trade is relatively more advantageous to the poor and underdeveloped country than to the rich and prosperous country" (George PET 148-149). In other words, the solitary Robinson Crusoe on a tiny island and the rest of the world both would gain by trade. The advantage, as George noted, "would [however] be far greater to Robinson Crusoe than to the rest of the world" (George PET 149). This is the first scientific principle of modern commercial policy, which holds that allowing some trade is always preferable to prohibiting it. Indeed, the exact logic of this claim was nicely laid out in a classic paper by Paul

Samuelson (1938).

2. Trade expands the mass of commodities available for distribution. George understood that free trade encourages the increase in the total mass of commodities and services available to a region through specialization and the division of labor. "Trade," he said, "by permitting us to obtain each of the things we need from the locality best fitted for its production, enables us to utilize the highest powers of nature in the production of them all, and thus to increase enormously the sum of various things which a given quantity of labor expended in any locality can secure" (George PFT:57). Here he follows the approach that David Ricardo and the English economists proposed. He distinguishes the effect that trade has on the size of the gross domestic product from the related issue of how trade affects the distribution of the gross domestic product.

3. Middlemen raise living standards, rather than reducing them. The prejudice against middlemen, retailers, and brokers seems to be all but universal in popular culture. Since the intermediaries and brokers do not produce anything tangible and permanent, their profits are always viewed with suspicion and alarm. They appear to sneak their profits out of someone's pocket. George spoke out against this point of view and the intolerant attitudes associated with it. He demonstrated that the one who stands behind the buyers and the sellers helps create markets by facilitating mutually advantageous trade. In George's words, the middleman "transports things" and brings them to where they are wanted in time (George PFT:63). Out of this surge in values come whatever amounts of money competition allows the middlemen to retain. In modern terms, the middleman creates wealth by lessening the transaction costs the buyers and sellers would otherwise incur (North 1990). George confessed that "I am only concerned in pointing out that the trader is not a mere 'useless exchanger,' who 'adds nothing to the real wealth of society,' but that the transporting, storing, and exchanging of things are as necessary a part of the work of supplying human needs as is growing, extracting, or making" (George PFT:63).

4. Importation makes export sales possible. George recognized that a

region cannot continue exporting without also importing. By importing the goods and services from foreigners, the foreigner obtains the power to purchase that country's exports. Foreign trade cannot be sustained without importing. In George's words, "exports and imports, as far as they are induced by trade are correlative. Each is the cause and complement of the other.... And so far from its being the market of a profitable commerce that the value of a nation's exports exceed her imports, the reverse of this is true" (George PFT:116).

At another point he insisted that a trade surplus can never be a measure of "increasing wealth" (George PFT:13). The trade or merchandise surplus may correlate with a nation's effort to pay off unjust liabilities to foreign claim holders. A case in point is 19th-century Ireland. As George observed, "for many years the exports from Ireland have largely exceeded the imports into Ireland, owing to the rent drain of the absentee landlords. The Irish landlords who live abroad do not directly draw produce for their rent, nor yet do they draw money. Irish cattle, hogs, sheep, butter, linen and other productions are exported as if in the regular course of trade, but their proceeds, instead of coming back to Ireland as imports, are, through the medium of bank and mercantile exchange, placed to the credit of the absent landlord, and used up by them" (George PFT 118). The net savings achieved by Ireland when it successfully ran a trade surplus with England, and thereby reduced its outstanding liabilities to absentee lan dlords (who did not reinvest their funds in Ireland), did not make Ireland richer. (11) Ireland would have been much better off if it had received tangible imports for all of its exports. If the Irish peasants had repudiated their tenancies and claimed the land to be theirs, they might have attracted foreign direct investment followed by rising productivity and the discovery of new areas of comparative advantage.

5. Specialization and export are based on comparative, rather than absolute, advantage. George understood that the gains from unencumbered trade are attributable to comparative rather than absolute trade advantage. Individuals in a region gain from commerce

when they specialize and export those goods and services in which they have the greatest comparative production advantage. This reallocates world resources to where they are most urgently needed, where urgency is expressed by comparative world prices.

The zealous advocate of protectionism and celebrated American journalist, Horace Greeley, was fond of pointing out that if the United States were to lay a heavy duty on Chinese tea they could end up producing that same tea at a lower cost than in China mostly because of the saving in shipping and packing costs. But Greeley's view is surely myopic.

Henry George offered a broader understanding of the pattern of trade and its possibilities, which showed that the U.S. benefitted by importing tea and having its workers apply their skills to other tasks: "there are other things, such as the mining of silver, the refining of oil, the weaving of cloth, the making of clocks and watches, as to which our [United States] advantage over the Chinese is enormously greater than the growing of tea. Hence by producing these things and exchanging them directly or indirectly for Chinese tea, we obtain, in spite of the long carriage, more tea for the same labor than we could get by growing our own tea" (George PFT:148).

6. Export advantage does not depend only on wages but also on productivity. George understood that high wages are not a necessary barrier to mutually profitable trade, because the comparative advantage, which forms the basis of all trade, depends not only on the cost of scarce factors of production but also on their relative productivity. According to George, "it is not true that the products of lower-priced labor will drive the products of higher-priced labor out of any market in which they can be freely sold, since, as we have already seen, low-priced labor does not mean cheap production, and it is the comparative, not the absolute, cost of production that determines exchanges" (George PFT:198-99). In response to the protectionist claim that tariffs are needed to preserve high wages, George remarked, "We have seen that low wages do not mean low cost of production, and that a high standard of wages, instead of putting a

country at a disadvantage in production, is really an advantage. This disposes of the claim that protection is rendered necessary by high wages, by showing the invalidity of the first assumption upon which it is based" (George PFT:144).

7. Trade opportunities function like labor-saving technological innovations. George recognized that foreign trade or exchange is in fact a "mode of production" that affects the economy in exactly the same way as does the invention of a new machine. According to this author, "the use of machinery enormously increases the production of wealth [and] we should see that the increased power given by invention inures primarily to labor, and that this gain is so diffused by exchange that the effect of any improvement which increases the power of labor in one branch of industry must be shared by labor in all other branches" (George PFT:254). The introduction of labor-saving machinery can disrupt existing business routines or result in some labor unemployment. The introduction of free trade, like the introduction of new methods of production, also can have these very same effects.

Just as no rational monarch would have taxed improvements in the steam engine because its use lowered wages and decreased opportunities in the coal mines, so also no prudent national authority should tax international trade. The importation of certain cheaper commodities and services will diminish job opportunities in the import-competing sector. However, these adjustment costs are no greater or more mysterious than those that arise by processes of technological change that augment the productivity of labor. We should not prohibit technological innovation, and, for the same exact reason, we should not vote out free international trade.

So far, we have outlined "free trade" arguments in George's writings that parallel the best of the free trade arguments found in the writings of the classical school. There is more to George's ideas about trade. I should now like to highlight how he tied free trade to his larger call for land reform.

True Free Trade and the Land Question

EVEN THOUGH FREE trade can, in principle, raise living standards in the same manner as the introduction of labor-saving machinery, under present conditions the introduction of more productive machinery often leads to unemployment and falling wages for a small group of displaced workers. Here George tackled with renewed creativity the famous "machinery question" that had interested David Ricardo and others. He pointed out that the "division of men into a class of world-owners and a class who have no legal right to use the world explains many things otherwise inexplicable," including why machines now have the surprising tendency to "destroy independence, to dispense with skill and convert the artisan into a 'hand,' to concentrate all business and make it harder for an employee to become an employer, and to compel women and children to injurious and stunting toil" (George PFT:264).

Free trade is not a panacea for the social problem. At first free trade expands the mass of commodities and services available to the consumer. This increases living standards for common workers who are able to enjoy higher real wages out of which they can save and perhaps someday go into business themselves. However, under current conditions in the United States, monopoly ownership of critical rights to natural resources and to unique spatial locations frustrates most people's entrepreneurial efforts. They are forced to bid against each other for critically important rights to locations that are kept artificially scarce. The rental price of the rights is high and most of the entrepreneurial gain is captured by the privileged landowners at the expense of these creative common laborers. According to George, if the rent of land were collected as public revenue, the "great cause of the present unequal distribution of wealth would be destroyed, and that one-sided competition would cease which now deprives men who possess nothing but power to labor of the benefits of advancing civilization, and forces wages to a minimum no matter what the increase of wealth" (George PFT:285; Whitaker 1997, 1901). While there is a "tendency" for free trade and labor-saving inventions to benefit labor, that tendency is "in some way aborted and this connection is especially noticeable in our age" where land and other resources are monopolized (George PFT:285).

Now let us turn our attention to protectionism, that is, taxes and other barriers imposed on imports. George pointed out that "the primary purpose of protection is to encourage producers ... to increase the profits of capital engaged in certain branches of industry" (George PFT:166). This elevation of profits will attract the entry of other industrial competitors since profits must reach a common level throughout any industry. Here George invoked a variant of the famous "competition of capitals" argument presented by Adam Smith in his Wealth of Nations (Hollander 1973:182-189). George explained, "The first effect of a protective duty is to increase the profits in the protected industry. But unless that industry be in some way protected from the influx of competitors which such increased profits must attract, this influx [of competitors] must soon bring these profits to the general level" (George PFT:170).

The influx of competitors might be prevented, however, if the protected firms in that industry enjoy some sort of unique or non-replicable commercial advantage. That advantage could be a rare resource, a special location, or a patent monopoly. In these cases the elevated profits will persist and inure to the industrialists but only so long as the non-replicable advantage persists. In the long run, the landowner will somehow capture the elevated profits in higher rents. (12) In other cases, the competition of capital will destroy the surplus returns as soon as the legal barrier to entry disappears or is removed--for example, when a patent expires. Thus, there is a long-run tendency for the benefits of protectionism not to remain with the owners of capital but either to disappear altogether or else be bid away by the owners of the natural resources and be incorporated into higher rents.

Notice the interesting symmetry in the scientific argument. With either free trade or protectionism, only the privileged property owners stand any chance of gaining in the long run. The policies of protectionism and free trade differ only in their short-run effects on wages and profits. According to George, in the short run, free trade favors the workers. In the short run, protectionism favors the factory owners. In the long run, both capital and labor lose as their extraordinary gains get competed away or else captured by the monopoly land owners. The monopoly interests at large in society capture these gains in the form of higher rent payments. Why favor free trade under present-day land monopoly conditions? George favored ordinary free trade because it was an important first step toward a broader and more radical free trade that he termed "true free trade."

True free trade for George meant not only the "abolition of protection but the sweeping away of all [distorting taxes]--the abolition of all restrictions (save those imposed in the interests of public health or morals) on the bringing of things into a country or the carrying of things out of a country" (George PFT:286). True free trade means the "abolition of all indirect taxation of whatever kind, and the [exclusive] resort to direct taxation for all public revenues" (George PFT:286). George concluded that there is "no conflict between labor and capital; the true conflict is between labor and monopoly.... No matter how rich an employer might be, how would it be possible for him to squeeze workmen who could make a good living for themselves without going into his employment? The competition of workmen with workmen for employment which is the real cause that enables, and even in most cases forces, the employer to squeeze his workmen, arises from the fact that men, debarred of the natural opportunities to employ themselves, are compelled to bid against one another for the wages of an employer" (George PFT:306).

In this analysis, George is an early anticipator of the famous Stolper-Samuelson theorem that was first presented to the economics profession in 1941 (Stolper and Samuelson 1941; Martin 1989). That theorem holds that free trade will lower the real wage of the scarce factor and raise the reward of the abundant factor compared with what they would otherwise have been if all trade were forbidden. Protective tariffs will have the opposite effect and raise the reward of the scarce factor. The proof of that theorem only holds tightly in the two-factor, two-commodity case and cannot be maintained in a multifactor and multicommodity world unless strong additional assumptions are made about the nature of technology and technological relationships (Deardorff and Stern

The importance of the Stolper-Samuelson argument is that if labor were the relatively scarce factor of production and land the relatively abundant factor, then the movement toward free trade would lower the real wage of labor and raise real rents. This analysis surely resembles 1886 America, which had unbounded land and depended on waves of immigrants to feed its hungry manufacturing sector. Yet, when we read George we learn the opposite: the gains from free trade at least in the short run will benefit the laborers and not the landowners. For a while, free trade brings higher wages and relatively lower rents.

Could George be claiming that in America it is land and not labor that has somehow become scarcer? I think he was maintaining exactly this point. George insisted that, under the social conditions of his time, the creation of exclusive property rights in land and the sport of trying to make speculative profits made land scarcer and that this is the source of the great social injustice that harms labor in the long run (Whitaker 1997). This argument suggests that George's approach can be illuminated with the aid of the modern stolper-Samuelson theorem. (14)

In summary, George favored free trade in commodities and services as a method of getting workers to recognize their interest in true fair trade, which "leads not only to the largest production of wealth, but to the fairest distribution" (George PFT:290). The elimination of unjust monopoly and privilege will secure "justice in distribution ... and the great inventions and discoveries which the human mind is not grasping can be converted into agencies for the elevation of society from its very foundations" (George PFT:290). George ended his remarkable 1886 book with this overall assessment about the utility of free trade and its relation to labor: "True free trade will emancipate labor" (George PFT: 290).

Krugman and Pop Internationalism

I NOW DIRECT your attention to 1986, one hundred years after George published Protection or Free Trade. President Ronald Reagan's Commission on Industrial Competitiveness, consisting of distinguished business executives, trade union leaders, college professors, and former government officials, already had reported back to the Executive Office about the supposed reasons that once profitable and mighty American industries were losing out to international competition. The nation was greeted with calls for a new type of mercantilist trade policy in which Congress would pick and subsidize winning industries and phase out losers. This form of protectionism was named "industrial policy" (Audretsch 1998). As the 1988 elections indicated, a skeptical American public did not greet these calls for a new industrial policy very kindly, perhaps recalling the awful waste and special interest character of earlier well-meaning government programs. Discredited, industrial policy soon gave way to the rhetoric of competitiveness .

In December 1992, a month before his inauguration, President-elect Bill Clinton hosted a conference in Little Rock, Arkansas. Among those invited were the heads of America's largest corporations, such as John Sculley, then CEO of Apple Computer, and several of America's most prominent economists, including Paul Krugman (Krugman 1996a:vii-viii). (15) At the Little Rock conference, Krugman learned that many of America's best political leaders, captains of industry, and smooth consultants had no real understanding of the fundamentals of international trade theory. He heard that international trade was essentially a zero-sum competition between nations and that lost export sales to an American airplane manufacturer meant American jobs lost to foreign competition. Current account deficits meant that our nation's consumers had defiantly created more jobs abroad for foreigners than those foreigners had created here for Americans. It was clear that the Clinton administration was bent on viewing the world as one in which "nations, like corporations, are engaged in fierce competition for global markets" (1996a:vii-viii). The Clinton administration needed a good preaching.

According to Krugman's assessment, from 1985 and 1995, a "deeply misconceived ideology of international trade had taken hold of much of the public discussion of trade issues in general" (Krugman 1996a:114). Krugman went on to call "quintessential" President Clinton's statement that "the United States is like a big corporation in the world economy." This remark, more than any other, summarized the bankruptcy of the modern public debate about commercial policy. Again the popular public debate, completely uniformed by 300 years of economics, had taken an ugly turn. It was time to start preaching free trade again and that is exactly what Krugman has done. He presented his case against the barbaric ideas of the policymakers in many important forums. (See note 7, infra.)

The dangerous intolerance manifest in pop internationalism-- the idea that a nation must be managed like a corporation and export sales encouraged--was brought out most clearly in 1992 in the rhetoric of presidential hopeful Ross Perot. This candidate heard a "giant sucking sound": the elimination of jobs that would occur in the import-competing sectors of the United States economy if the remaining small tariffs against Mexican goods were finally removed. Perot urged the United States to continue its protectionist policies and to scuttle the proposed North American Free Trade Agreement (NAFTA). (16)

Perot and Clinton both view trade as a device to increase jobs in the United States. President Clinton, in his 1998 State of the Union Address, spoke about "240 trade agreements that remove foreign barriers to products bearing the proud stamp, 'Made in America'" (Clinton 1998:A-19). This is important because "high exports account for fully one-third of [American] economic growth." Clinton went on to remind Americans that the "world's economies are more and more interconnected," but this brief recognition of the mutually advantageous nature of voluntary trade among regions quickly is replaced with confusion, when he asked, "Why should Americans be concerned about [serious financial problems in Southeast Asia]?" The answer to this question is that "these countries are our customers, and if Asia sinks into recession, they won't be able to buy the goods that we want to sell them. They are our competitors, and if their currencies [fall in exchange value vis-a-vis the dollar] the price of their goods will drop, flooding our market and others with cheap goods, making it tougher for us to compete" (Clinton 1998:A-19). What is amazing about this rhetoric is that in just a few short sentences, nations have been described as both customers and competitors. Nations are like corporations fighting for market share--or are they?

According to Krugman, it is a great error to think of nations as corporations (Krugman 1996b; Krugman 1996a:106). The United States does not sell goods and services; rather, people and businesses located in the United States trade with people and businesses in other regions. The President must show an understanding of basic economics here and emphasize that interregional trade and specialization swells the mass of commodities and services available to all for distribution. Krugman explained that trade functions like processes of technological change to expand potential wealth to all Americans. Admittedly, under Stolper-Samuelson, free trade might lower the real wage of our relatively scarce factor of production (nothing in modern economic theory permits us to rule out such a redistribution of wealth), but to limit or prevent international trade would be analogous to taxing and prohibiting processes of technological change. In the past, technological innovations have produced enormous changes in the ways that we work and live. For the same reason we accept technological change we must tolerate international trade and exchange based on comparative advantage (Krugman 1996a:119-230). Here Krugman is resorting to the same exact reasoning we detected in Henry George's writings of one hundred years ago.

Krugman is especially upset with several of the President's academic advisors, some of whom were trained as economists, but who, in their lust for power and influence, have eschewed the fundamental principles of economics and embraced pop internationalism. Krugman offers a blistering attack on Lester Thurow's bestseller Head to Head: The Coming Battle Among America, Japan, and Europe (Thurow 1993). This book managed to receive an endorsement from President Clinton himself! My softcover edition contains Senator Paul Simon's endorsement. (17)

Thurow's polemic severed its ties with the two-centuries-old free trade tradition. Head to Head misdirects attention from the myriad ways in which a nation or region of the world differs from a large corporation. For a country, encouraging export sales to create jobs when taken to extremes could seriously lower regional productivity and real income. Exports are what we need to pay for our imports: living standards rise because of imports. Why would the people in a region be joyous about paying extra amounts for the things they import? Rather, a nation or region is not a corporation that sees sales of its goods and services as a source of shareholder value. A nation is itself a region comprised of numerous corporations and individual households. It does not speak with one loud voice but with a plethora of individual voices, interests, hopes, and aspirations.

According to Krugman, a large region resembles a closed system, and certain accounting relationships must hold true in the current international financial system. These necessary accounting relationships operate differently for regions than for large corporations (Krugman 1996b). That is why if one region of the world is attracting enormous amounts of capital, then (a) it will necessarily run a trade deficit (current account deficit) with its partners, and (b) its aggregate domestic investment will exceed its aggregate domestic savings. (18) The trade deficit is merely the other side of a region being a net seller of bonds, stocks, and other property rights assets to individuals outside that region. Someone who advocates policies that, under flexible exchange rates, are intended to achieve a simultaneous increase in foreign direct investment and a surplus on the trade account is trying to accomplish the impossible. Modern accounting guarantees that this cannot happen.

Krugman, like George 100 years earlier, sounds the clarion trumpet of free trade out of a love of liberty and tolerance and with the 300-year-old insights of modern economics. Economists are the pillar of the intellectual crusade to teach all nations about the benefits of cooperation and international exchange.

Conclusion

I HAVE EXAMINED the two important books that draw upon core economic ideas and principles to address important political issues of their respective time periods and to preach the gospel of free trade. As I said at the beginning, that preaching amounts to a call for tolerance. Not only should people be allowed to live peacefully and unharmed, they should also be left alone to freely trade and exchange goods and services on a mutual basis with others in different parts of the world. George and Krugman treat protectionism, as do I, as something often sinister and inconsistent with broader issues of social justice.

For George, the war against protectionism extended to broader and more far-reaching problems of social organization. In his judgment, monopoly restrictions limiting access to land and raw materials must be removed. For Krugman, the battle against protectionism takes the form of flatly denying the curse of pop internationalism and returning to fundamentals, emphatically denying that international trade is some sort of strategic competition such that when one nation-state loses another one thereby gains. Both authors demand that we understand the fundamental mechanisms and processes of comparative advantage, from which toleration and free trade will follow.

The challenge of social justice will not disappear in our lifetimes. One hundred years from now, in 2101, few of my 20th century readers will be around. Still, it will be fun to find among the books or cyberspace treatises that special free-trade text harking back to Krugman and George and others who, like the Tinbergen Archives, keep the torch of tolerance alive in a different age and a different context.

I have my own imaginative thoughts about what the latest advances in preaching will be about. The central issue will have to do with the free movement of individuals from one region of the world to the next. Many nations will use military force to keep the "foreign devils" off their lands. Policymakers will allege that there is only so much work to be done and that if more people enter the country to work, they will push locals out of jobs.

The doctrine of free trade assumes that when real wages differ among regions, only goods and services travel and not the services of individual laborers themselves. Indeed, it is a theorem of modern international trade theory--the factor-price-equalization theorem--that open-market exchange of goods and services will equalize "factor prices world wide just as unrestricted factor mobility would do" (Humphrey 1996:69). Free trade in goods and services serves as a substitute for the free movement of laborers and their families (Deardorff and Stern 1994:9-10). Differences in the real wage of labor and other factors tends to narrow without the reshuffling migrants and asylum seekers.

As the bulk of the world shifts from free trade areas with pockets of protectionism to a veritable common market, our concept of tolerance must be broadened even further from the acceptance of free trade and the unimpeded exchange of goods and services to the acceptance of immigrants and wanderers experimenting with new designs for living and working together. Free trade ideas will become more evident in another sense as well. With open regional borders and free travel, the free trade doctrine will be applied both to the services of labor as well to the families of the laborers who may have a preference for living in one place rather than another. This extension of the free trade doctrine to the whole idea of freedom to associate, to travel, to work, without the threat of interventions to disrupt, derail, and detract from those associations is the next frontier in free trade doctrine. Economists, along with organizations like the Tinbergen Archives, can take pride in the fact that they have moved the world closer to an even more thoroughgoing notion of tolerance. The economics of a world without immigration laws and tolerant of the mobility of men and women is most properly a topic for a sermon. (19)

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Notes

(1.) The Tinbergen Archives is located at 1800 South Robertson Boulevard, Suite 206, Los Angeles, California 90035. In a note thanking me for my recent purchase of the film "Nuremberg," Mr. Gal Tinbergen summarized the goals and objectives of his archives as I have stated in the text.

(2.) Douglas A. Irwin (1996) offers a coherent and interesting history of the free trade doctrine. Its links to a broader cosmopolitan conception of economic life are better found in the works of the Austrian economist Ludwig von Mises (1963). Other efforts to persuade critics that middlemen perform important and valuable services can be found in Lerner (1961:32-48) and more recently (Landa 1994).

(3.) It is not easy to generalize and point to any single cause for genocide. It seems to me that at least some bigotry and hatred of social groups can be linked in large part to profit-making middleman activities and the ignorance surrounding those activities. On the causes of hatred against the European Jews, see Goldenhagen (1996:90-91). On the Armenians and Jews as parasitic "races" that survive parasitically by dealing in money changing see Alfred Marshall (Marshall 1961, 1:244). Marshall's remarks were published only a few years before the shocking Armenian massacres of 1894 in Asia Minor by the Ottoman army but he allowed this remark to stand in each successive edition of his text. The Armenian slaughter of 1915 also failed to catch his attention. On the 1998 Indonesian crisis and its links to the long-standing hatred of the diaspora Chinese in Southeast Asia, see Seth Mydans, "Indonesia Turns Its Chinese Into Scapegoats," New York Times (February 2, 1998): A-3.

(4.) The West grew rich because free trade and exchange occurred in an environment that encouraged innovation and entrepreneurship. This means that the text must be qualified to read that free trade and exchange will produce these progressive results in a legal environment that participants find to be "legitimate" and that encourages trust and long-term private planning. For accounts that largely support my statement in the text see Rosenberg and Birdzell

(1986), Steckel and Floud (1997), and Mokyr (1990).

(5.) There are "exceptions" to the rule that free trade will always be to the advantage of a region. See Irwin (1996), Krugman (1996), and Maneschi (1998). According to Maneschi, "protection for infant industries had been advocated since mercantilist times, and ... because of the careful and plausible way [John Stuart] Mill rephrased the argument ... he insured its respectability among mainstream economists for over a century. The only other argument for protection accepted as valid (from a nationalist viewpoint not sanctioned by Mill himself) was the terms of trade argument, whereby a country with monopoly power in trade can use a tariff to improve its terms of trade" (1998:141). Maneschi goes on to say, "advocates of protectionism such as Henry Carey identified rising living standards with industrialization anticipating 'new trade theory'." The NTT holds that dynamic factors promote comparative advantage. This leads to the policy insight that comparative advantage "can actually be created with the assistanc e of policy makers who wish to advance their country's economic standing' (1998:143). These are the principal exceptions to free trade that I refer to in the text.

(6.) Rights talk is now unpopular among scholars. Certainly, it was the language of Adam Smith's day and used by him to attack various state-imposed limits on human behavior. Consider Smith's response to the policy of removing poor people from the parish where they chose to reside. Smith argued that such government action is 'an evident violation of natural liberty and justice" (Smith, I: 157). To extend these claims about justice requires that we decide what to allow in the commonwealth: (a) the types of trade and exchange and (b) the types of commodities and services. Most civilized nations have outlawed ownership and exchange of slaves and certain types of pornography. I shall not attempt a defense of this approach here except to say that such an approach is consistent with Henry George's general approach to policy questions.

(7.) Krugman's book culled together important and interesting papers on trade and international competition that he had published in leading journals and magazines during the 1990s: "Competitiveness: A Dangerous Obsession," Foreign Affairs (March\April 1994): 28-44; "Proving My Point," Foreign Affairs (July\August 1994): 198-203; "Trade, Jobs, and Wages," Scientific American (April 1994): 22-27; "Does Third World Growth Hurt First World Prosperity?" Harvard Business Review (July\August 1994): 113-121; and "Myths and Realities of U.S. Competitiveness," Science (November 1991): 811-815.

(8.) Barker (1991) tries to link events in George's life with the emergence of his ideas about land reform. See especially chapters 6 and 7.

(9.) Hamilton and the Federalists were opposed by Thomas Jefferson, who extolled in his early writings the benefits of agriculture. It is not well known that Jefferson opposed immigration "on the grounds that European morals are depraved" (Grampp 1965:117). This is ironic given the recent DNA evidence that Jefferson himself parented children out of wedlock with one of his slaves. This is a controversial topic but one worth mentioning here.

(10.) The Wharton school would continue to uphold interventionism until the apostasy of the famous Wharton economist Simon Patten. He came to Wharton a "scientific representative of [protectionist] policy" but later turned against "unbridled big business" and monopoly business after 1900 and became a promoter of progressivism and reform. The University of Pennsylvania's Wharton School eventually drove Patten out, but that was not until 1917 when most of his best work had been accomplished (Sass 1993:238-240).

(11.) As a general rule, when the inhabitants of nation A are paying off loans or repatriating profits to the inhabitants of nation B, this constitutes net foreign disinvestment for nation B and a "capital account deficit" for nation A. A capital account deficit in a regime of flexible exchange rates necessarily implies a current account trade surplus for nation A. Nation A is in effect "saving" by consuming less than its potential output and using the net exports to "buy back" foreign financial claims on the future productivity of the region.

(12.) What I have in mind here is simply that when the business's lease comes up for renewal, the landlord will demand higher rent. The tenant can afford to pay higher rent so long as it does not go beyond the profits and chew away part of his capital (his equity "tied up" in the business). If the landlord claims rent up to this limit and no more, then the value of the property will increase as the higher rent is capitalized into a higher land price.

(13.) Rogowski (1989) argues that the experience of the United States (along with Germany and Britain) in the nineteenth century confirms the logic of the Stolper-Samuelson theorem where this theorem now serves as a historical law. Since the United States has abundant land and much less labor and capital, it follows that the United States would become protectionist. According to Stolper-Samuelson, protectionism raises the real returns to the relatively scarce factors of production. Labor and capital "therefore" were led by their private interests to agitate for protectionism. Ironically, Henry George took the position that it was land that had become "artificially" scarce and that protectionism would ultimately benefit the landlords at the expense of labor and capital. I discuss this problem below.

(14.) Compare my treatment with Martin (1989:489-501). Rogowski (1989) uses the Stolper-Samuelson theorem in a "three factor case" to explain political alignments. Also see note 13 above.

(15.) At the time of the invitation in 1992, Krugman had already published his Rethinking International Trade in which he established what has come to be known as "new trade theory" (NTT). NTT holds that the comparative advantage enjoyed by any region or nation can be shaped by the active involvement of the government. It is obvious that Krugman was invited to the Little Rock conference because he was expected to endorse government interventions designed to improve U.S. competitiveness. This may have been a miscalculation by the political forces, because Krugman was already actively putting warning labels on his scientific work. In subsequent writings, Krugman sounded a note of caution. He warned that "new thinking about trade does not yet provide simple guidelines for policy" (Krugman 1986:18). Krugman's arguments for abandoning free trade were fair game for the interest groups. They would seize upon his or any scientist's texts and use them to "advocate policies that are not likely to benefit the nation as a whole" (Krugman 1986:19).

(16.) According to Krugman, the Clinton administration's entry into NAFTA was not based on any systematic understanding of free trade and its importance as an extension of a basic political vision of tolerance for other regions and its people. More likely than not, the U.S. administration simply felt that the supposed one-sided advantage given to Mexico by the agreement is just the cost of helping Mexico's government remain in power (Krugman 1996a:155-65).

(17.) U.S. Senator Paul Simon hopes that "this book...[will] have impact in the halls of Congress, in the workplace, and in the boardroom. That's why I have put a copy on each senator's desk" (Thurow 1993, rear cover).

(18.) A region may be attracting capital because its wages are low in relation to its laborers' productivity or because some investors may simply wish to withdraw investments from more unstable political environments.

(19.) Indeed, I was surprised to discover that among philosophical libertarians and more so among political libertarians, unlimited migration of peoples of all colors and cultures remains controversial. See however the refreshingly consistent and principled writings of Walter Block who cares little for nation-state building (Block 1998).

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