THE WEALTH OF A NATION

A HISTORY OF TRADE POLITICS IN AMERICA

C. DONALD JOHNSON

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To Suzanne Spratlin Johnson, Anna Johnson Barnett,
and the memory of Eugenia Hailey Johnson
—the strong, loving, wise, and stabilizing
women in my life.

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Preface

As the seasons change from summer to fall from the vantage point of my office on our family farm in rural north Georgia, I am struck by the tumult and turbulence the world is facing in the early months of the Trump era. In this particular setting—in an old house that has seen so many seasons of American history since before the Civil War, surrounded by old trees outside and even older books inside—and at this particular moment—with the liberal geopolitical and economic institutions created to avoid another Depression and the world wars of the twentieth century facing perhaps the greatest existential threats since they were created—I review the final edits of the manuscript for this book taking the long view of the politics of trade in America.

Centuries before President Donald Trump withdrew from the Trans Pacific Partnership and other international leadership roles, while promising to build a "big, beautiful wall"—indeed, centuries before Adam Smith wrote the seminal treatise that is the foundational reference for this book—there was another great global power that chose to withdraw from engagement with the world and its markets and to retire behind a Great Wall.

Since I began traveling to East Asia as a trade negotiator in the late 1990s and began reading Chinese history, one of the more fascinating periods that I have come across—a period that has particular relevance to the politics of trade today—takes place during the reign of Zhu Di, who became Yongle, the third emperor of the Ming Dynasty, in 1402. Zhu Di moved the capital to Beijing from Nanjing and expanded the sphere of Chinese culture and influence far beyond its territories. He repaired and reopened the 2,000-mile Grand Canal to transport grain from the fertile Yangtze River valley in the south to Beijing and built majestic monuments known to most tourists visiting China today, including the imperial palace of the Forbidden City and the Temple of Heaven, and he established the Ming Tombs with his own. Zhu Di personally led five successful military campaigns north of the Great Wall against the Mongols, who had ruled China for the century preceding Ming rule under the Yuan Dynasty beginning under Kublai Khan. Zhu Di fought the Mongols his entire life as they continued to be the greatest threat to Ming rule. Although Zhu Di's tactics were often ruthless, his reign is considered one of the most brilliant in Chinese history.

One of the premier achievements of the reign of emperor Yongle was the expansion of the Ming naval fleet under the admiral Zheng He and the historic maritime empire created through Zheng's expeditions. Zheng He was the son of a devout Muslim of Mongol extraction who fought with Mongol rebels against the Ming army and was killed in battle. The Ming soldiers captured the ten-year-old Zheng, castrated him, and gave him as a servant to Zhu Di, a prince and prominent young army officer at the time. Though during the reigns of Zhu Di's predecessors, eunuchs were not trusted with political or significant administrative assignments, Zheng became a valued adviser and confidant to Zhu Di throughout his military campaigns, including the rebellion Zhu Di led to take the throne from his nephew not long after the death of Zhu Di's father, emperor Hong Wu. Shortly after becoming emperor, Zhu Di placed Zheng in charge of his naval fleet.

Chinese vessels and sea charts had led the world for several centuries, but Zheng He expanded the capacity and reach of China's navy exponentially. His lead ships, called "treasure ships," were estimated to be between 400 and 600 feet long and over 150 feet wide (at least five times the size of the vessels sailed by Christopher Columbus ninety years later). Each of these ships, which numbered more than sixty on the first voyage with nine masts and twelve sails, carried at least 500 sailors and treasures of Chinese porcelain, silk goods, iron implements, and silver coins. The entire fleet of over 300 assorted ships carried horses, weaponry, grain, and a crew of around 28,000 men. From 1405 to 1433, Zheng led seven voyages, lasting two years each, to more than thirty countries throughout Asia, the Middle East, and Africa. His plan under Zhu Di's direction was to chart the entire world, carrying thousands of tons of treasure and a military force to promote the power and influence of the Ming dynasty and build a great empire through gifts, trade, and foreign domination. Using his military and diplomatic skills, Zheng founded numerous colonies during these voyages and brought many of the kingdoms he visited within the Chinese tribute system. Zheng spread Chinese culture and influence throughout the regions he traveled, which can be traced centuries after his expeditions ended, and temples were constructed in his honor.

After Zhu Di died in 1424 from an illness acquired during his last expedition against the Mongols, however, the imperial power and influence of the Chinese navy soon came to an end. The two succeeding emperors found Zheng's expeditions too extravagant at a time when Mongols continued to be the greatest threat to the dynasty. Unlike Zhu Di and Zheng He, they saw little value in interaction with the outside world. Zhu Di's grandson, emperor Xuande, permitted only one last voyage during which Zheng traveled to Mecca and died at sea on the return home.

From this time forward, the dynasty allowed its oceangoing vessels to deteriorate without repair and withdrew behind the Great Wall in the grand sanctity of the "Middle Kingdom." The kingdom closed its ports to foreign ships, which the powers believed only carried barbarians, in xenophobic resistance to the outside world. This policy continued into the Qing dynasty and ultimately led to disastrous and humiliating consequences in the last century of the empire and beyond. The Opium Wars, the territorial concessions taken by the Western powers, and the ravaging abuses inflicted by Japanese militarism have all instilled a lasting national resentment that impacts Chinese policy to this day.

The current leader of the Chinese Communist Party, Xi Jinping, who has become the most powerful Chinese ruler at least since Deng Xiaoping, invoked the slogan the "Chinese Dream" as the guiding creed for his regime soon after he became president of the People's Republic of China in 2012. At first, many observers likened the phrase to a meaning similar to the "American dream" of individual economic prosperity, especially in view of the rising wealth of China as much of its population emerged from poverty under the economic reforms implemented during Deng's rule. But Xi's use of the slogan offered a much broader theme. The dream he proposed was a nationalistic call for "a great rejuvenation of the Chinese nation." Frankly, the message sounds something like a call very similar to one that we often see on baseball caps in America, "Make China Great Again," but with a true reference point to a time when China really was the single most powerful nation on Earth.

President Xi cited the Chinese dream for a national rejuvenation in a speech given at the National Museum of China commending an exhibition called "Road to Revival," which juxtaposed the achievements of ancient imperial China in the permanent exhibit against the spectacle of national humiliation that followed the penetration of European imperialists into the isolated Middle Kingdom and ended with the Second Sino-Japanese War from 1931 to 1945. The exhibition presented a sanitized version of the progress made since the communist "liberation" of China in 1949 on the road to the current "socialist market economy," or what Deng Xiaoping called "socialism with Chinese characteristics." Of course, the exhibits gave no hint of the 1989 massacre that occurred in front of the museum on Tiananmen Square, downplayed the chaotic destruction of the Cultural Revolution, and largely ignored China's other self-inflicted disasters occurring during the rule of the charismatic Mao Zedong. It was against this backdrop that Xi urged national unity in the effort to revive the pride and greatness of China.

The legacy of the eunuch admiral Zheng He's maritime exploits was almost lost when after his death the Mandarin elites, who were competing with the eunuchs for important ranks in the imperial court, destroyed most of the records of his voyages and diplomatic accomplishments. Yet as the new Chinese republic began building a navy to defend against the imperial Japanese incursions in the early twentieth century, the memory of Zheng's powerful navy was revived for a time. More recently in the present century his diplomatic successes are being honored by recalling his exploits as a national hero and by imitation, especially in the use of soft power to extend Chinese influence. As China has risen to become the second largest economy in the world behind the United States, it has taken its modern version of treasure ships abroad to welcoming countries and invested in infrastructure and established trade relationships.

I spent eight summers teaching American and Chinese law students at Tsinghua University Law School in Beijing a course on U.S.-China Trade Issues under the WTO, which included seminars with the Chinese Ministry of Commerce and the American Embassy in Beijing hearing each complain about the other's trade violations. One thing that my students learned from this experience, if nothing else, is that the rules-based liberal trade system now embodied in the World Trade Organization is critical to the economic stability vital to the national interests of these two economic powers. It may even help them become "great" again.

As an American who has been involved with trade policy as a congressional staffer, practitioner, policymaker, negotiator, and academic for over four decades, I freely admit to being a partisan for the liberal economic institutions that the generation of our fathers and grandfathers created. Their effort was the culmination of a struggle that began at the time Adam Smith published *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith's seminal treatise declared itself to the world in the same year that our founding fathers declared the existence of the United States of America. The world-changing history that followed 1776, I believe, is no coincidence. While we owe a multitude of different factors for our growth as the most powerful and prosperous nation in world history, certainly one of the most influential is that we have led the world in applying the liberal insights of both Adam Smith and our own founders in structures and institutions that support broad prosperity, particularly for the working class. This book tells the practical political story of how that happened, in all its fits and starts.

Today, the United States and most societies of the world are in a period of profound technological, economic, social, and political transition that threatens to undermine the liberal economic order that we created—indeed, threatens to undermine liberalism itself. The wealth of our nation depends on whether we can learn a new lesson from our own history.

Don Johnson
Royston, Georgia
September 2017

Acknowledgments

The first debt I acknowledge concerning this work is for the interest in politics that I inherited from my family. This interest came to me from my father, Clete Johnson, as well as my grandfather, and great-grandfather—all lawyers who served honorably in elected public office. Without this driving curiosity, I would likely not have experienced political office myself nor have been able to finish the research and writing for the book. I am also indebted to my primary professor and mentor in law school, Dean Rusk, who arranged a scholarship for me to study international law at The Hague. Secretary Rusk and Lord Lionel Robbins, whose lectures on economic history during graduate school at LSE, inspired my interest in the liberal postwar international order that both men played a role in creating.

I am also grateful to Congressman Phil Landrum (D-GA) for giving me my first job after law school and later for making sure that I was hired on the staff of the House Ways and Means Committee as it began consideration of the legislation that became the Trade Act of 1974. It was there, under the wise and tolerant tutelage of Harry Lamar, that I began to learn the real lessons of trade politics by watching such committee members as Chairman Wilbur Mills (D-AR), Sam Gibbons (D-FL), Charlie Vanik (D-OH), James Burke (D-MA), Herman Schneebeli (R-PA), and Barber Conable (R-NY) as they represented their diverse interests. Twenty years later, as a member of Congress during consideration of NAFTA and the WTO, I absorbed more intense lessons in trade politics from my constituents in the 10th District of Georgia and from Democratic colleagues on both sides of the issue, including congressmen Bill Richardson (D-NM) and Bob Matsui (D-CA) on the

pro-side and Dick Gephardt (D-MO), Dave Bonior (D-MI), and my freshman friend Sherrod Brown (D-OH) on the opposition. With most of the favorable votes coming from the GOP by this time, I learned new lessons about how a bipartisan coalition can achieve pro-trade victories.

I thank President Bill Clinton for the opportunity to serve as ambassador and chief textile negotiator in the Office of the United States Trade Representative (USTR) under the effective leadership of Ambassador Charlene Barshefsky. I am grateful for the support and counsel given me in that job by Congressman John Spratt (D-SC), leader of the Textile Caucus. Anyone who has worked in the comparatively small agency of USTR comes away impressed, if not overwhelmed, by the diligence and high quality of public servants employed in the Winder Building. My deputy, Caroyl Miller, knew more about the history and technical aspects of textile trade negotiations than I ever thought possible, and my lawyer, Demetrios Marantis, later became the chief trade counsel for the Senate Finance Committee before becoming deputy USTR under President Barack Obama. My experience at USTR was invaluable in the formulation of this book, and my colleagues on the interagency negotiating delegation, especially Troy Cribb at Commerce, were critical to the narrative.

After leaving the Clinton administration and joining the Patton Boggs law firm in Washington, DC, I began researching and writing the introductory section of the book. I am thankful to my partners there, including especially the late Tom Boggs, Frank Samolis, and Tim Chorba (among many others) for supporting this effort and for the pleasure of working with them on trade policy issues for several years.

I wrote most of this book over the past decade while serving as director of the Dean Rusk Center for International Law and Policy and teaching courses in international trade law at the University of Georgia School of Law. I am extremely grateful to Dean Rebecca H. White for the support she gave to me and to the Rusk Center during my tenure there. Without Dean White's commitment we could not have attained the record of scholarship; high-profile conferences; study abroad programs in China, Brussels, and Geneva; international judicial training programs; and foreign internships for students. Above all, I am quite sure that I owe the completion of this work to my presence on the Georgia Law campus for eleven years.

I am very grateful to my colleagues at the Rusk Center in assisting with the book. The late international law professor Gabriel Wilner read and provided valuable comments on some of the early drafts of the first

part of the book, and we shared countless conversations about its theme, a subject he had taught for decades. He was always an important resource for me and a close friend. I was very fortunate to have two excellent writers to serve as assistant directors at the Center during my time there—Andre Barbic and Laura Kagel. As "light" editors they dutifully came along behind me and turned some of my long sentences into short ones and awkward passive statements into readable active ones. I was especially grateful that they were not afraid to tell me when something I had written made no sense to them. One of the great benefits of academic life is the opportunity to work with bright, diligent students and, of course, to profit from their research. I am especially thankful to the following student research assistants who worked with me over a number of years on this book: the late Richard Houston, Nate Hunt, Jackson Harris, Kelly Pierce, Matthew Bennett, Daniel Olds, Jared Hegberg, Mitch O'Hara, and Eric Heath.

Another vital advantage to a project of this breadth is the library resources available at a great research university. The staff at the main and law school libraries of the University of Georgia have been extraordinary in ensuring that I had all the necessary tools and materials for this research. Likewise, I am most grateful for the superb assistance provided to me by the staff at the Library of Congress, the Congressional Research Service, and the presidential libraries of Franklin D. Roosevelt, Harry S. Truman, John F. Kennedy, and Lyndon B. Johnson.

I give a special word of thanks to my close friend at the University of Georgia School of Public and International Affairs, Professor Loch Johnson. An expert in many fields—foremost in national security intelligence—Loch has been a faithful counselor to me in the long process of completing this book. He has been willing to share, without complaint, much of his valuable time to read chapters and provide important insights and critical recommendations that have been enormously helpful.

Finally, and most important, I thank my family for all their help and inspiration in completing this work. My two sons, Clete and Alex—both lawyers, excellent writers, and US Senate committee staffers for much of the time I was writing the book—were extremely helpful with research and editing. But their most valuable contribution came in the same form as that rendered by my wife and best friend (also a careful editor), Suzanne, and daughter, Anna. It is the unconditional love, support, and encouragement from my family that have made finishing this book possible for me.

The Wealth of a Nation

Introduction

The Battle in Seattle and Adam Smith

> Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: . . . to enrich both the people and the sovereign.
>
> To promote the little interest of one little order of men in one country, it hurts the interest of all other orders of men in that country, and of all men in all other countries.[1]
>
> —Adam Smith

The idea for this book came to me on a rainy day in Seattle at the end of November 1999, as 40,000 anti-globalization protesters effectively trapped me and the other delegates representing 134 different countries inside our hotels blocking our participation in a ministerial meeting of the World Trade Organization (WTO).

The demonstrators were a colorful lot—dressed nonthreateningly as sea turtles, butterflies, dolphins, trees, and vegetables—as they took to the streets determined to shut down the wicked activities in which they presumed we were engaged. Many of the foreign delegates stared in puzzled amusement, and later bemused annoyance, as they seemed to be trying to figure out the connection between the costumes and the issues that they, the delegates themselves, were there to negotiate. In most cases there was some trade-based connection to the protests, but the event attracted many of society's discontents who just seemed to be longing for an opportunity to bring back the 1960s. There were, to name a few among the oddly allied opponents, the "Vegan Dykes" marching topless along with electrical workers, right-wing militiamen, anti-nuclear activists, communists, free Burma and free Tibet demonstrators, the Bicycle Alliance of Washington, and defenders of the long-deceased singer/actor/activist Paul Robeson and Mumia Abu-Jamal, a former journalist and Black Panther on death row in Philadelphia for killing a policeman in 1981. "It has sort of become a grab bag of people unhappy with capitalism . . . a little bit carnival like," admitted Mike Dolan, a field director for Global Trade Watch, one of the principal organizers of the demonstrations. A message scribbled on a store window attempted to sum up their collective message: "I don't know what a WTO is, but I fucking hate rich people."[2]

This broad message, which, along with countless more focused ones, had been promoted effectively by the myriad of protest organizers on the World Wide Web of free-market technology, had a broad international following. There were complementary outbursts of the protest as far away as London and Manila, and in more remote and unlikely corners of the world, such as Nashville, Tennessee, at the presidential campaign headquarters of Vice President Al Gore. In Seattle, there were strong protest contingents from all parts of Latin America, Asia, and Europe.

The most prominent of the foreign participants was José Bové, the French sheep farmer and activist who was protesting the retaliatory 100 percent US tariffs imposed on his Roquefort cheese after the European Union refused to comply with a WTO decision against a ban on American hormone-treated beef. Bové spent much of his early childhood in America while his parents studied at the University of California–Berkeley. He became an international celebrity and a national hero in France for bulldozing a McDonald's restaurant under construction in a French city only a few months before coming to Seattle. His contribution to the protest came in the form of serving 484 pounds of Roquefort cheese, along with French baguettes and Bordeaux wine, in front of a McDonald's while denouncing "*la mal-bouffe*," the lousy "food of the WTO," as he called it, under a sign reading, "Resist McDonaldization."[3]

If there had been a mascot to symbolize the Seattle demonstrations, it no doubt would have been the turtle. It was certainly the predominant costume of the environmental protesters. Appearing like an invasion of teenage mutant ninja turtles, an estimated 250 of the cardboard amphibians pranced through Seattle with signs reading, "Free trade = dead sea turtles." If overwrought for rhetorical impact, they at least had a complaint connected to the WTO. In 1998, the WTO ruled that certain US regulations banning the importation of shrimp from countries that did not require the use of turtle protection devices were inconsistent with WTO obligations.[4] Based upon this decision, Patricia Forkan, the director of the US Humane Society, charged, "The road to Seattle is littered with sea turtle carcasses."

An objective review of this decision, however, leads to a less dramatic conclusion. The US law upon which the regulation was based had two principal objectives. The law fostered the environmentalist objective of forcing governments to adopt stronger protections for the endangered sea turtles. It was also designed to equalize the costs of operation between US fishermen, who were required to use turtle excluder devices in their trawling nets, and their foreign competitors. The Louisiana senators sponsoring the legislation readily acknowledged that they did so to help "our shrimpers in Louisiana."

A large number of shrimp-exporting countries saw it as a discriminatory protectionist measure and initiated the case against the United States in the WTO dispute settlement system. Supported by briefs filed by eleven international environmental organizations, the United States argued that its shrimp-turtle restrictions were sanctioned under Article XX of the General Agreement on Tariffs and Trade (GATT). This provision permits trade restrictions that are "necessary to protect human, animal or plant life or health," or relate to "the conservation of exhaustible natural resources," if they are not arbitrary or discriminatory, nor simply "a disguised restriction on international trade." At the first stage of the dispute settlement process, a WTO panel refused even to consider the amicus curiae briefs of the environmental groups and summarily rejected the American defense of its measures under Article XX. The panel concluded that the restrictions were a clear "threat to the multilateral trading system."

If the panel decision had prevailed on appeal, the environmentalists' protest in Seattle would have been on firmer ground. However, the decision of the Appellate Body was far more balanced. In the first place, it said the panel should have considered the briefs filed by the environmental organizations and sharply criticized the panel's excessive reach in extending a categorical superiority to its view of the purpose of the WTO obligations—that is, to develop a "durable multilateral trading system," which the US shrimp-turtle measure was "undermining." Importantly, the Appellate Body found that the US measures were in fact related "to the protection of exhaustible natural resources" and therefore within the purview of Article XX. It was in the application of these measures that it found fault with the US position. Essentially, it held that the manner in which the measure was being implemented was arbitrary and discriminatory in its application to the WTO member states. The final WTO decision did not attempt to "overturn" the basic restriction, which the ruling found to have sufficient inherent flexibility to be enforced consistently with WTO obligations.[5]

Indeed, well before the Seattle Ministerial, the United States accepted the decision without changing the underlying law and simply revised its regulatory guidelines so as to continue requiring foreign shrimpers to use turtle-excluding devices in order to export to the American market. As in most cases with balanced decisions, however, neither the advocacy groups nor the complaining countries were pleased. The Earth Island Institute, the principal environmental group behind the broad application of the restrictions, called it "a death blow for sea turtles," while the complaining foreign countries decried it as "dangerous," predicting that it "will result in explosive growth in unilateral, discriminatory, trade-related environmental measures."[6]

While the turtle may have become the symbol of the protest, the clear leader of its mobilization was the American labor movement. The most widely perceived victim, and correspondingly the most attractive underdog, of trade liberalization is the American worker. It is a perception that has created a formidable bond among the vast majority of those associated with the blue-collar job market, union and non-union alike. This bond is not limited to workers impacted by trade, such as those in textile and steel jobs; counterintuitively, it even includes workers whose jobs depend on trade for survival. The local Seattle Machinists Union at Boeing—the nation's largest exporter, deriving nearly half its revenues from foreign sales—supplied 900 marshals for the Seattle protest. An estimated 9,600 dockworkers from the International Longshore and Warehouse Union took part in the protest by temporarily shutting down not only the Seattle port but dozens of others all along the West Coast, including the country's largest in Los Angeles and Long Beach, California. Viewing the WTO as the pinnacle of the corporate-dominated world marketplace created "by the corporations, of the corporations and for the corporations," in the words of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) president John Sweeney,[7] tens of thousands of workers converged upon Seattle demanding to be heard. According to a handout distributed by the AFL-CIO, "Fast

Facts on Mobilization," union members were to arrive from more than fifty unions, twenty-five states, and 144 countries in car caravans, more than 185 buses, nine planes, and two trains.

On the conference's scheduled start date, November 30, the protesters ruled. The front line surrounded the convention hall with little or no interference by Seattle police. Most of the officials in the trade delegations were pinned in their hotels for much of the day, afraid or unable to venture out. The opening ceremonies were canceled, and any trade negotiations that took place were carried on in hotel rooms and by telephone. In the largest labor protest in American history, 25,000 trade unionists joined forces with at least 10,000 environmentalists and other assorted protesters to take over the streets of Seattle in a rain-soaked march and rally with thunderous anti-trade speeches from the all-star luminaries of American labor. Jay Mazur, president of the Union of Needle Trades Industrial and Textile Employees (UNITE), declared: "The rules of this new global economy have been rigged against workers and we're not going to play by them anymore."[8] United Steelworkers president, George Becker, promised to lead an effort that would force the US Congress to abandon the WTO. "Either they fix the goddamn thing," he said, "or we're going to get out." Teamsters president James P. ("Jimmy") Hoffa declared, "We want the message to go out that the WTO is in trouble; the citizens are re-voting," and proclaimed the event the beginning of a worldwide revolt against "corporate greed."[9]

By late afternoon, the largely peaceful labor protest was followed by a rash of violent acts by a small contingent of "anarchists" wearing black clothing, masks, and, in some cases, Nike sneakers. The anarchists ran through the streets smashing windows and spray painting graffiti on the downtown retail outlets of establishments they considered to be the culprits of trade evils—Niketown, Starbucks, the Gap, and a McDonald's restaurant that had been the site of Jose Bové's protest earlier in the day. As bonfires of trash and police barricades were being ignited on the street corners, the Seattle police with full riot gear finally moved in and shut down the protest with tear gas, rubber bullets, and pepper spray, creating the frightful appearance of an urban war zone in a week that came to be known as the "Battle in Seattle." A Hollywood film of the same name, starring Charlize Theron and Woody Harrelson, later celebrated the triumph of the protest over the alleged nefarious intentions of the WTO.

The first reaction to the demonstrations from free-trade proponents was sublime disdain. The popular liberal economist Paul Krugman offered this explanation of the "urban legend" spurring the anticipated protests in the Internet publication, *Slate,* the week before they began:

> The WTO has become to leftist mythology what the United Nations is to the militia movement: the center of a global conspiracy against all that is good and decent. According to the myth, the "ultra-secretive" WTO has become a sort of super-governmental body that forces nations to bow to the wishes of multinational corporations. It destroys local cultures . . . it despoils the environment; and it rides roughshod over democracy, forcing governments to remove laws that conflict with its sinister purposes.[10]

The *Economist* called the protesters "militant dunces," parading "their ignorance through the streets of Seattle."[11] Jerry Jasinowski, president of the National Association of Manufacturers, called them "loopy . . . dancing in the streets, pushing people, acting crazy."[12] Thomas Friedman, the foreign affairs columnist for the *New York Times*, called them "a Noah's ark of flat-earth advocates, protectionist trade unions and yuppies looking for their 1960s fix."[13] In short, they were a silly and obnoxious hindrance, not to be taken seriously.

But many Western (and, according to the *Economist,* "lame-brained") politicians took them quite seriously.[14] Of the eighty-eight members of the US Congress who attended the Seattle conference, at least one-third had come in sympathy with one or more of the protest groups and some even joined in the opening day march. In a speech to a labor rally, the House Democratic Whip, Congressman David Bonior (D-MI), called the WTO "a battering ram against a century of social progress from clean air and water to consumer safety and workers' rights."[15] While most of the visiting foreign officials from developing countries were critical of the demonstrators and the lack of police control, a member of the European Parliament sympathetic to the protests criticized the police crackdown. "They dress in very strange sort of Star Wars outfits, had tear gas, and I think it was quite a draconian response to the demonstration," she said to a British television reporter.[16] WTO director general Mike Moore, a savvy politician who had risen from a labor organization to become briefly prime minister of New Zealand, condemned the violence but acknowledged that "peaceful protest has often led to important social reforms . . . [and] our critics are not always wrong."[17]

Leaders of both the European Union (EU) and US delegations saw the protests as an opportunity to promote their respective negotiating positions. The French trade minister welcomed them as evidence that economics and politics are inseparable in the fight to limit the negative effects of uncontrolled agricultural trade and genetically modified food imports. Pascal Lamy, the EU trade commissioner, noted with undisguised delight, "What's happening outside is having an effect on the negotiations." In particular, he pointed to the farmers' protest as making it "less possible" for the negotiations to eliminate government subsidies for agricultural exports. On the US side, Sue Esserman, a deputy United States trade representative, chose to comment on the labor demonstrations. "A clear expression of concern by ordinary workers has to be taken into consideration," she declared in explanation of the priority of the US labor rights working group proposal.[18]

The preeminent official sympathizer, however, was US president Bill Clinton. "We should open the process up to all those people who are now demonstrating on the outside," he told reporters as he left for Seattle. "They ought to be a part of it."[19] In a telephone interview with the *Seattle Post-Intelligencer*, he said that while deploring the violent conduct of some of the protesters, he believed that most of the demonstrators were making a valuable contribution to the WTO meeting. From San Francisco, where he was attending a fundraising event for Democratic congressional candidates, he told the reporter that the WTO process must be opened up "so that the voices of labor, the environment and the developing countries can be heard, and so that the decisions are transparent, the records are open, and the consequences are clear." While arguing that, on balance, "the world is much better off because we've expanded trade over the last fifty years," he insisted "we've got to make a better case down deeper into society."[20]

Personally, I viewed the Seattle protest with mixed emotions. As one who had participated in and supported the anti-war and civil rights protests of the late sixties and early seventies, I had sympathy for the protest message but found it misguided as to the effects of the WTO trade regime upon the working class, the environment, and Third World development. Many protesters, longing for a return to the glory days of the protest movement of thirty years before, seemed to have simply latched on to the anti-globalization attack on the WTO and presented it as a tool for the evil purposes of multinational corporations. They could not, I thought, have been aware of the long history in American politics of progressive support for liberal trade policies in a struggle against the corporate special interests seeking protection from market forces that lowered the cost of living for most workers. On the other hand, it was certainly true that many of the labor and environmental issues affected by trade needed to be addressed more effectively and the protesters deserved to be heard.

I will come back to Seattle in chapter 16 of the book, but for now I readily concede that the governmental responses to the demands of labor and environmental organizations to date had been seriously inadequate. In the interest of full disclosure, I am a pro-trade Democrat, which, like the sea turtle, is a political breed currently on the endangered species list. Like President Clinton, I believe that the "world is better off" with "expanded trade," but society deserves a better explanation as to why that is so. Society also deserves to know what is being done to ensure that the system governing international trade will benefit ordinary working families. My own perspective on these issues as a congressional staffer, practitioner, and policymaker since the 1970s has contributed to the theme that runs through the narrative of this book. In contrast to the current conventional view of trade politics, protectionism has historically, more often than not, been a tool of big business to entrench moneyed interests at the expense of the working class.

The purpose of this book is to review the political path leading to the adoption of liberal trade policies in America, the creation of a liberal world trading system, and the current threats to those policies and the system. Political clashes between progressive and conservative forces fighting over free trade and protectionism have raged since 1776, the year Adam Smith published *The Wealth of Nations* and America declared its independence from Great Britain. Smith's enlightened perspectives have remained relevant throughout every period in our history and offer lessons that apply today. This story is far more than a tale of competing economic interests over tariffs; in many ways, the development of American trade policy and the political fights over trade have been a driving force of American history. Often they have contributed substantially to matters of war and peace. This analysis of the evolution of American trade policy will be viewed through the lens of the central political struggle over the wealth of the nation between business and the working class from the birth of the nation to the creation of the global multilateral trading regime.

This book is about the politics, personalities, and political forces—the visible hands—that have narrowly shaped trade policy and broadly influenced American history. It is not a book focused on the pure economics of trade. In the formulation of American trade policy, politics has nearly always trumped economics. In a classic illustration of this point, President Herbert Hoover signed into law the infamous Tariff Act of 1930 (commonly known as the Smoot-Hawley Tariff) after receiving a letter signed by over a thousand of the most prominent economists and business leaders from all over the United States urging him to veto it. This is not to say that good politics is always in conflict with good economics in the making of trade decisions—they often lead to the same policy. After all, American politicians always profess to be acting in the best interest of the country or at least the best interest of their particular constituency. My effort here may often question the sincerity of such claims while attempting to discern and reveal true motivations, but I will not attempt with statistics and graphs to prove or refute whether an action taken was truly in the best economic interest of the country or even the politician's constituency as a whole. That is the job of economists to sort out; mine is to weigh the interests that motivate the policy decision, whether it is driven by a pure conscience regarding the public good, political self-preservation, or some form of bribery.

ADAM SMITH: PHILOSOPHICAL PATRON OF THE WORKING CLASS

A common, if not obligatory, point of reference for any historical discussion of the politics of international trade is Adam Smith's masterpiece, *An Inquiry into the Nature and Causes of the Wealth of Nations*. While the interests affected by trade have evolved since its publication in 1776, many of the core issues in the bitter debates that characterize trade politics today remain essentially unchanged, and an informed discussion about the politics of trade in today's global economy requires a closer look at the principal themes of Smith's seminal work. His simple yet powerful arguments favoring free trade unencumbered by government-imposed protective restrictions have been profound and enduring, yet conventional political wisdom surrounding the book is often misleading. *The Wealth of Nations* is frequently heralded as the gospel authority for the eternal and absolute virtues of free-market economics, and Smith is viewed by many as the intellectual father of self-regulated capitalism—even the godfather of Ayn Rand's crusade for individualism over collectivism. That perspective is, however,

FIGURE I.1 Adam Smith, John Kay 1790 engraving (Library of Congress)

an oversimplified and distorted view of Smith's work and his legacy in the world economy over the past two and a half centuries. Most important, it ignores the social, philosophical, and political context in which Smith introduced his theories of political economy.

On one level, Adam Smith's work represents the scientific efforts of an objective scholar determined to explain how the economic system works and how it could be improved. But *The Wealth of Nations* is also fundamentally a political essay. Some of its most moving passages condemn the exploitation by moneyed special interests of mercantilism, the prevailing economic system in eighteenth-century Europe. Smith eloquently championed the workingman whom he felt to be the principal victim of this inefficient and corrupt system. His pro-market arguments were grounded in a belief that a sound economy ensures a fair wage for the laboring classes and allows them to purchase material necessities at a fair price. A broadly based system for creating national wealth that would allow workers to earn and spend more money was his antidote to the inequities of the mercantilist system, which only promoted the wealth of protected vested interests.

THE POLITICAL CONTEXT: MERCANTILISM IN THE AGE OF ENLIGHTENMENT

Although considered the father of classical economics, Adam Smith wrote and taught as a moral and social philosopher, and his major work prior to *The Wealth of Nations* was published under the title *The Theory of Moral Sentiments*. Economics was not considered a distinct discipline in eighteenth-century Britain. Smith and his close friend David Hume, along with other philosophers of the Scottish Enlightenment, focused primarily on the study of human relations. Among Hume's brilliant works were *A Treatise of Human Nature* and *Inquiries Concerning Human Understanding*. Smith's lectures at the University of Glasgow concentrated on ethics, logic, and jurisprudence, drawing from history and social anthropology, as he analyzed the progress of social institutions and the role of law and government in society.

Smith's conclusions in his famous treatise on commercial relations and public prosperity derived from studies of social behavior. His central thesis recognized "a certain propensity in human nature . . . to truck, barter, and exchange one thing for another."[21] This propensity, he determined, is unique to humans: "Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog."[22] Although didactic in style, his simple illustrations about the profound effects of human nature on national wealth were not recounted as part of a purely academic dissertation. Rather, by the time he wrote *The Wealth of Nations*, the professor of moral philosophy's principal intent was to influence policy, not to educate students. The book's lengthy analysis of economic concepts, such as the role of the division of labor in enhancing productivity, no doubt laid the foundation for the independent science of economics. Yet, the analysis was only ancillary to his polemic against mercantilism, which he viewed as a conspiracy against the public good, if not an assault upon nature itself.

Even though prosperity increased for many as the industrial revolution emerged in the post-feudal era of the late 1700s, the masses continued to live in hopelessly miserable conditions. Smith believed, with ample justification, that such conditions were largely the product of misguided government policies embedded in the mercantile system that had dominated the economy of Britain and most of Europe for the two centuries prior to the publication of *The Wealth of Nations*. Under its classical definition, mercantilism demanded a favorable balance of trade—that is, more exports than imports—in order to accumulate national wealth in specie, or coined money, and precious metals. One method of accomplishing this goal was limiting imports; another was imposing severe limitations on the rising cost of domestic labor.

Smith reached his innovative insights about basic economic incentives in the context of a British labor environment that would seem as foreign and nonsensical to us today as leeches are to modern medicine. Since Elizabethan times, prosperity had been denied to laborers by employment restrictions imposed through a strict guild system that prevented competition and kept wages low. Not only were workers coerced into selected trades and prohibited from entering others; instead of the minimum wage and maximum working hour requirements that protect workers today, British laws in Smith's day actually imposed *maximum* wages and *minimum* work days to ensure only subsistence living conditions for the working class and only a few leisure hours.

For instance, in order to prevent "the Encouragement of Idleness," a 1720 law forbade journeymen tailors from being paid more than two shillings per day and required them to work from six in the morning until eight at night with one hour for dinner.[23] In 1768, Parliament increased their *maximum* wage to two shillings and seven pence halfpenny per day and reduced their *minimum* workday from thirteen to twelve hours—not much improvement in a forty-eight-year interval. Under this law, employers convicted for paying their workers too much were fined five pounds, while the recipients of excessive wages were subject to two months at hard labor in the House of Correction.[24]

In addition to the statutory restrictions against improving wages and hours for workers, employers conspired to ensure that the cost of labor did not infringe upon their profits. "Masters," Smith observed, "are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labour."[25] In fact, they engaged in what would today be illegal collusion practices:

> To violate this combination is everywhere a most unpopular action, and a sort of reproach to a master among his neighbors and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of things, which nobody ever hears of. Masters, too, sometimes enter into particular combinations to sink the wages of labour even [lower]. These

> are always done in the utmost silence and secrecy, till the moment of execution.[26]

While employers were free to collude with each other to restrict workers' wages, workers themselves were statutorily prohibited from forming "combinations" or unions of their own to demand better wages or other improved working conditions.[27] Supporters of these restrictive laws argued that higher than subsistence wages and more free time only led to laziness and an unseemly aspiration to luxury. The restrictions, however, not only prevented these undesirable aspirations but also the consumption of many basic necessities. Cloth, for example, was so expensive that most people could afford only a few garments in a lifetime. The Tower Hill area in London became known infamously as "Rag Fair" where the poor trafficked in "dilapidated garments."[28] Even the apparel of plague victims was often scavenged by survivors.

Smith's revolutionary prescription for this problem was to set the market free from these constraints in order to determine the proper level of wages: "The money price of labour is necessarily regulated by two circumstances; the demand for labour, and the price of the necessities and conveniences of life."[29] The "fluctuations" in the price for basic goods aggravated the situation, since wages remained stagnant regardless of a laborer's actual purchasing power.[30] In effect, if a laborer bought food one year at an affordable price, he conceivably would not be able to buy as much the following year. Smith's keen insight into the wage issue demonstrated how this set of circumstances stifled a country's overall wealth and prosperity, not just that of the common worker. Sounding very much the student of human nature, Smith wrote, "The wages of labour are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives."[31] Far from fostering idleness, Smith believed wage increases would stimulate worker productivity and the whole nation would reap financial rewards.

Smith cited North America as a practical example where no restraints existed on the wages a worker could earn with his labor. While England was then a much richer country than any part of North America, wages were higher in the American colonies than in any part of England. "It is not the actual greatness of national wealth, but its continual increase," Smith contended, "which occasions a rise in the wages of labour." It is not in the richest countries "but in the most thriving, or in those which are growing rich the fastest, that the wages of labour are highest." Smith presciently intimated that while Great Britain was richer at that point than North America, this might not always be the case. "Though North America is not yet so rich as England, it is much more thriving, and advancing with much greater rapidity to the further acquisitions of riches."[32] After reviewing the circumstances in several other countries, he drew this conclusion:

> The liberal reward of labour, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going fast backwards.[33]

These oppressive restrictions on laborers were not the only hindrances to general prosperity imposed by the mercantile system. Book IV of *The Wealth of Nations* is a polemical attack upon the entire British commercial system and the monopolist interests controlling it. In this book, Smith popularized "mercantilism" as a pejorative term for the ages. Based essentially upon the belief that a nation's wealth is measured by its accumulation of gold and silver, the system was born in the Age of Discovery, and the necessity of funding the expensive navies of the rising maritime nation-states led to its perpetuation. The government treasury alone could not sustain the costly wars of the sixteenth and seventeenth centuries, which often arose as sovereigns competed for economic plunder. Privateers were licensed to engage in their own conquests against competing nations and to feast on the spoils of "discovery" in foreign lands. For example, the British crown granted the intrepid pursuer of El Dorado, Sir Walter Raleigh, a monopoly on the wine trade for his piracies against Portuguese vessels. The British East India Company was given not only the spoils of its territory in India but also the authority to maintain a system of government and defense to secure its bounty.

To further encourage the enrichment of their country's wealth in gold and silver, Parliament made trade policy fundamental to the mercantilist system. In order to enhance the national balance of trade, according to Smith,

> it necessarily became the great object of political economy to diminish as much as possible the importation of foreign goods for

> home consumption, and to increase as much as possible the exportation of the produce of domestic industry. Its two great engines for enriching the country, therefore, were restraints upon importation, and encouragements to exportation.[34]

This was accomplished through a strict system of export subsidies and export duty refunds, called drawbacks, and import controls, including high import duties and absolute prohibitions of certain sensitive imports. Special interests were also granted import protection and export encouragement through the establishment of foreign colonies and treaties of commerce with other countries, which discriminated against goods from third countries.

By the end of seventeenth century, however, the mercantilist concept of private production of sovereign wealth through conquest had been turned on its head. Instead of enhancing the national treasury, the mercantilists depleted national resources in battles over foreign acquisitions. The enormous cost of Britain's dominion over its colonies—established principally, if not solely, for the purpose of maintaining private monopolies—could not be justified morally or economically. Sovereign wealth was being depleted, and the English people were being forced to pay high prices to cover the excessive profits and fraud in the management of such monopolies as the East India Company. In Smith's view, the mercantilist system sacrificed overall public prosperity in favor of special interests who, with the help of the government, carved out monopolies for themselves.

Smith conceded that import protection had helped create jobs and capital in certain British monopolies but noted, "Whether it tends either to increase the general industry of the society, or to give it the most advantageous direction, is not, perhaps, altogether so evident."[35] Indeed, he later went to great lengths to show "that the single advantage which the monopoly procures to a single order of men is in many different ways hurtful to the general interest of the country."[36] He saw the regulation of commerce through protection of domestic monopolies as an "artificial" diversion of finite national resources for the benefit of a few at the expense of the whole population in defiance of natural liberty in the Age of Enlightenment. In book V, Smith offers a broader condemnation of a system that maintains "inequality of fortune" by securing to the rich "possession of their own advantages." "Civil government, so far as it is instituted for the security of property," Smith contends, "is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all."[37]

THE INVISIBLE HAND: NATURAL JUSTICE AND ECONOMICS

Smith viewed the restrictions on trade and labor imposed by the mercantile system as both uneconomical and unethical. The benefits of trade should not be measured in the accumulation of gold and silver, he argued, but rather by the exchangeable value of the annual produce of the land and labor of the country. "It would," he wrote, "be too ridiculous to go about seriously to prove that wealth does not consist in money, or gold and silver; but in what money purchases."[38] This point about the true nature of wealth, however, was lost on the mercantilists. The hoarding of precious metals, which resulted from an obsession with an excessively favorable balance of trade, only increased the prices of other commodities in the home market, causing a decrease in wealth. This economic system inhibited consumption, which Smith believed was the sole and self-evident purpose of all production. Rather than measuring wealth by profits directed to protected monopolies and trade guilds, Smith proposed that the abundance of necessities available to its entire people determined a nation's prosperity. "It is but equity besides that they who feed, clothe, and lodge the whole body of the people should have such a share of the produce of their own labour as to be themselves tolerably well-fed, clothed, and lodged."[39]

A principal concern of Smith and his colleagues of the Scottish Enlightenment derived from the idea of natural justice. Smith followed John Locke's belief that

> though the Earth, and all inferior creatures be common to all men, yet every man has a property in his person. This no Body has any right to but himself. The Labour of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state of that Nature hath provided, and left it in, he hath mixed his Labour with, and joined to something that is his own, and thereby makes it his property.[40]

Maximum wage laws and monopolistic prices, which infringed upon the rights of man to the products of his own labor, violated this Lockean view of natural law and justice. Moreover, Smith contended, the frustration of the natural motivation of "every man to better his condition" is bad economics.[41] Smith, the moral philosopher, was concerned with the natural rights and social conditions of mankind, but the strength of his argument came not from a moral appeal to the better angels of his audience. The monumental influence of his work arose from the eloquent and sound simplicity of his appeal to the self-interest of his audience. He sought to persuade eighteenth-century policymakers that the mercantile system, whose purpose was to enhance national wealth, actually debased a country's overall security and prosperity. Pointing out "the mean rapacity . . . of the merchants and manufacturers, who neither are nor ought to be the rulers of mankind," he observed that "the capricious ambition of kings and ministers has not during the present and preceding century been more fatal to the repose of Europe than the impertinent jealousy of merchants and manufacturers."[42]

These special interests had had their way in keeping wages low, as well as prices and profits high, by restricting competition—both foreign and domestic—all the while arguing the national advantages of these effects. Smith viewed as pure sophistry such mercantilist pamphlets as Thomas Munn's *England's Treasure by Foreign Trade*, published in 1664, which touted the benefits to the general public of trade restrictions and a favorable balance of trade, thus strengthening the special-interest influence on public policy. "I have never known," he wrote, "much good done by those who affected to trade for the public good."[43] After all, Munn, a director of the British East India Company for twenty-six years, was hardly a neutral observer.

Smith, too, based his argument on the broader public benefits of his free-trade philosophy, but if he had a motivating bias, it was a compassion for the "lower orders" of mankind. In a mock review of the book in the "millennium issue" of the *Economist* magazine in 1999, the editors observed:

> "Wealth of Nations" is animated, to a striking, even alarming degree, by concern for the welfare of the common labourer. Mr. Smith endlessly deplores the idleness and cupidity of the rich, their remorseless seeking after preference that weighs on the people at large. He favours the marketplace partly—nay, mainly, it often seems—because of the curbs it places on the mighty.[44]

Smith advanced an approach "which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people."[45] He maintained, "No society can surely be flourishing and happy of which the far greater part of the numbers are poor and miserable."[46] When a person is allowed to enjoy the fruits of his labors, he will strive to enhance his own revenues and unintentionally those of his nation simultaneously. This point is made over and over again in the body of his work but most poignantly in the following famous quotation:

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.[47]

This is the context of the most celebrated—and perhaps most misunderstood—evocation of Smith's masterpiece. In an effort to enhance his own gain and economic security, man is "led by an invisible hand to promote an end [i.e., public prosperity] which was no part of his intention."[48] The economy is thus the creation of thousands of individual human wills, thousands of efforts to improve individual standing, thousands of butchers, brewers, bakers, and others promoting their own self-interest—all the while unconscious of the spontaneous beneficial economic order they are producing. In contrast to the conventional wisdom of today, Smith's free-trade argument was far deeper and broader than a mere argument against regulations on business; instead, it was an argument for taking the shackles of special interests off individual workers so that they could collectively promote the public good through their individual efforts to enhance their own well-being.

No legislator decreed the specialization of division of labor to enhance productivity or the creation of money to facilitate trade. Rather, these economic advances evolved slowly but instinctively from the general disposition of men "to truck, barter, and exchange" the products of their labor in a free market. To impose mercantilist limitations upon this sacred right of mankind denied prosperity to the lowest ranks of the people and, consequently, shackled the wealth of the entire nation.

Smith's emphasis on the benefits of a spontaneous economic order driven by the invisible hand of unfettered self-interest in the marketplace was complemented by a direct attack on the interloping role of the more visible hand of government in managing commerce to hoard wealth favoring a selected class. "It is the highest impertinence and presumption . . . in kings and ministers to pretend to watch over the economy of private people. . . . They are themselves always and without any exception the greatest spendthrifts in the society. Let them look well after their own expense and they may safely trust private people with theirs."[49]

THE GOVERNMENT'S ROLE

Smith's well-known disdain for government oversight of "the economy of private people" arose in the context of the mercantilist system that awarded special interests at the expense of society in general and working people in particular. Given the artificial distortions that government-enabled special interests brought to the economy, Smith generally recognized a role for government in performing only three principal duties: providing a common defense, maintaining a system of justice, and erecting public works. It would follow, then, that Smith's prescription for international trade would be simply to get government out of the way altogether. This is certainly the conventional view of what Smith's free-trade ideas brought to international economics.

The truth, however, is more nuanced than this, as Smith's free-market philosophy derived from his antipathy for the damage that privileged special interests did to the public good through their restraints on labor and popular consumption. These special-interest distortions were often, but not always, synonymous with government restrictions on international trade. In fact, Smith noted at least four situations where import restrictions were justifiable for the public good.

First, he conceded that trade restrictions may be justified to protect a domestic industry necessary for national defense. Inasmuch as the defense of Great Britain depended vitally upon the strength of its navy, a British shipping monopoly was properly supported by heavy burdens upon the shipping of foreign countries, and absolute bans in some cases. Smith acknowledged that Parliament may have been motivated solely by national animosity toward the Dutch when it passed the Act of Navigation that imposed these burdens. The act certainly "was not favourable to foreign commerce, or to the growth of that opulence which can arise from it."[50]

Regardless of the motivation behind it, however, the result is the same as if it had been the product of the most deliberate wisdom. Even considering its negative economic impact, national security "is of much more importance than opulence."[51]

Second, Smith supported imposing a tariff on foreign imports when a domestic tax is imposed upon a similar product of a home industry. The import tax should be equal to the tax on the domestic product so as to "leave the competition between foreign and domestic industry, after the tax, as nearly as possible upon the same footing as before it."[52] Care should be taken to avoid the temptation of laying a much heavier tax on competitive foreign products, Smith noted, "in order to stop the clamorous complaints of our merchants and manufacturers that they will be undersold at home."[53]

The third case in which he suggested that restrictions on imports might be justified involved retaliation against the products of foreign nations that used high duties or prohibitions to restrain the importation of goods that competed with its domestic products. Smith singled out the French as being "particularly forward to favour their own manufactures" and blamed French protectionism for inciting war with the Dutch on at least one occasion and provoking an enduring "spirit of hostility" with the English.[54] "Revenge in this case naturally dictates retaliation" when there is a probability that the retaliatory restrictions will prompt the foreign nation to eliminate its barriers.[55] Unfortunately, he observed, the judgment as to whether the retaliation is likely to have that effect is left to "that insidious and crafty animal, vulgarly called a statesman or politician," who may fall under the influence of "momentary fluctuations of affairs,"[56] meaning presumably petty politics or perhaps a loathing for all things French. The inherent risk of retaliation, he noted, is that it nearly always injures citizens who had not been harmed by the foreign restraints.

Finally, Smith took the position that some trade restrictions should remain in place and only gradually be eliminated when high trade barriers had protected an industry for an extended period of time. Freedom of trade should be restored in this case with "reserve and circumspection" due to the requirements of "humanity." For if the protective restrictions were taken away all at once, the cheaper foreign imports might flood the home market and "deprive all at once many thousands of our people of their ordinary employment and means of subsistence."[57] Here again, Smith's bias toward the working class apparently outweighed his preference for pure free-market economic policies. It is this exception from his free-trade views that provides support for the slow-staged removal of US textile import protection at the end of the twentieth century.

SMITH'S LEGACY IN NINETEENTH-CENTURY BRITAIN

The underlying message of *The Wealth of Nations* is that the interests of merchants, manufacturers, landowners, wage earners, and others affected by commerce are forever subject to the varying influences of market forces and government policies. Based upon principles of equity and sound economics, according to Smith, market forces should be favored over government intervention to balance these interests, except in the limited circumstances he outlined. This was especially obvious in Smith's day. Government-imposed mercantilism stunted national economic growth and encroached upon tenets of natural justice by granting exclusive privileges to "merchants and manufacturers" at the expense of the "poor workman" and discharged soldiers who had defended their country "with their blood" and were looking for work in the restricted system.[58]

Yet Smith was also a realist who understood the political process. Powerful monopoly interests had corrupted government policymakers and "like an overgrown standing army . . . have become formidable to the government, and upon many occasions intimidate the legislature."[59] Members of Parliament who supported the monopoly interests received not only "the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance." On the other hand, those who opposed them could not avoid "the most infamous abuse . . . personal insults, nor sometimes real danger, arising from the insolent outrage of furious and disappointed monopolists." Consequently, he harbored little hope about the success of his appeal for more free trade.

> To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.[60]

Smith was correct in assuming that Britain was not likely to become a free-trade Utopia, but the impact of his message took effect sooner than he expected. In 1784, eight years after the publication of *The Wealth of Nations*, the bold, reform-oriented William Pitt the Younger became prime minister at the age of twenty-four and, as an avowed Smith follower, initiated several trade liberalization policies. He began by slashing the heavy import duties on tea, which by the eighteenth century was a key part of the English cultural diet, from 119 to 12.5 percent. While this action drew strong opposition in Parliament, as well as from the smugglers who operated a thriving business in a highly developed black market, it was very well received by the lower classes who were now able to afford a beverage that had been considered a luxury. With the resulting increased volume of imported tea, the lower tariff yielded nearly the same amount of revenue for the treasury as had the high duties.

Pitt's next free-trade venture, however, was not as successful. Long suffering under oppressive British trade policies, Ireland was in a state of economic depression and political rebellion when Pitt assumed office. Not wanting to repeat the mistakes that his predecessors had made in the American colonies, Pitt sought a solution that would give Ireland some commercial advantages, yet maintain security and economic benefits "to the common exigencies of the empire."[61] Under the influence of Smith, he proposed, in effect, a free-trade agreement with Ireland, which would reduce tariffs on manufactured and agricultural products to the lowest levels in each country for each other's products. In his speech to Parliament, Pitt spoke of the "cruel and abominable" treatment of Ireland over the past century, observing how it had been denied "the enjoyment and uses of her own resources; to make [Ireland] subservient to the interests and opulence of this country, without suffering her to share in the bounties of nature, in the industry of her citizens," and he called for "a system of equality and fairness" in a new trade relationship that would "seek the aggregate interests of the empire."[62] But as Smith had predicted, leaders of the opposition bench wasted no time in denouncing this proposal for free trade. Members representing domestic manufacturers forced Pitt to abandon the effort with overwhelming arguments against the damage that would ensue from cheap Irish labor.

In 1786, Pitt took another bold step by concluding a reciprocal trade agreement with France, which offered unprecedented mutual trade concessions following decades of tariff wars and military conflicts between the two countries. Having learned from his experience with his Irish proposal, Pitt had been careful in monitoring the negotiations of the agreement with the French to ensure that the tariff concessions favored British manufacturers, and he was not shy about making this point in his speech promoting its passage. British woolens, cottons, porcelain, and other products of the new industrial age would have better access to the French market with its 24 million inhabitants, and French brandy, wine, and oil could be imported instead of smuggled across the English Channel. Despite protests by the opposition that France was "the natural political enemy of Great Britain,"[63] Parliament approved the treaty by better than a 2-to-1 vote. The trade advantages brought to the two countries did not survive for long; they disintegrated with the commencement of war between Britain and France in 1793. Pitt's trade liberalization efforts were sidelined as the rise of Napoleon necessitated war-related tariff revenue.

The fall of Napoleon at Waterloo in 1815 brought peace but also a fear among the landed interests controlling Parliament of being flooded with grain imports. As a result, the government enacted the infamous Corn Laws prohibiting the importation of wheat until the domestic grain price reached a certain high level. While these laws were never effective in stabilizing the market for British farmers, they were maintained for decades to the detriment of the nutritional needs of the "inferior classes" who sometimes rioted against them.

Demands for change beginning in the 1820s led to greater trade liberalization and to the removal of some of the labor restrictions that Smith had railed against. Under the leadership of William Huskisson, a Tory Member of Parliament (MP) serving as president of the Board of Trade, Parliament reduced the prohibitively high tariffs on silk, wool, cotton goods, and numerous other products with great fiscal success and to popular acclaim. Conservative Tory forces and strong business interest groups, as might have been expected, raised loud opposition to these modifications. Yet in the years since Smith had written his gloomy predictions for free-trade proposals in 1776, the country had gone through periods of economic distress and political and social upheaval following the war with France, all of which led to a demand for reform. In 1824, Parliament repealed the Combination Acts, which had prohibited workers from forming unions, and Huskisson's trade reforms were similarly successful as measures easing the burdens of workers and helpful to the growing middle class.

The 1840s, however, brought the most dramatic round of trade reforms when Sir Robert Peel became prime minister. Although Peel's Tory Party was known to be more protectionist than the opposition Whigs, he and William Gladstone, his brilliant young vice president of the Board of Trade, proposed a budget in 1842 that reduced or abolished 750 tariffs out of nearly 1,200 total items then included in the tariff system. His proposal removed prohibitively high tariffs, reduced duties on most raw materials to 5 percent, and reduced duties on manufactured goods to between 10 percent and 20 percent. He paid for any loss of revenue with a 3 percent income tax that affected only the upper-income population for a four-year period. Gladstone promoted the tariff cuts in an article propounding the thesis that the measure would stimulate trade, increase consumption, and increase customs revenue. When he was able to prove this thesis with the results of trade statistics the following year, he and Peel began to push ahead with further cuts in 1844, 1845, and 1846. According to nineteenth-century financial historian Sydney Buxton, "the total number of duties reduced by him was 1,035, the total number entirely repealed 605—duties for the most part on articles which concerned the food, the clothing, and the comfort of the people, or which, as levied on the raw material of manufacture, affected employment."[64]

The Corn Laws, firmly defended by both the landed aristocrats of the Tory Party and Peel when he took over the leadership, presented a much tougher issue for trade reformers. After a period of poor harvests drove food prices up, a group of middle-class discontents in the industrial town of Manchester founded the Anti-Corn Law League in 1838 under the leadership of Richard Cobden, who, along with John Bright, would become a seminal figure in the promotion of free-trade economics and social reform, under what became known as the "Manchester School" of liberal economics. Though not formally well educated, Cobden was a voracious reader, absorbing works by Adam Smith, David Hume, and Benjamin Franklin. Cobden's passion for free trade derived from his belief that protective tariffs deprived people of affordable food and maintained the old feudal system of order that denied individual freedom, responsibility, and enterprise, and his belief that free trade was linked with peace, while protectionism was linked with war.

Cobden, who had begun work as a warehouse clerk and traveling salesman, understood that the landlord interests controlled Parliament and that the laws protecting these interests would not be repealed solely as a result of persuasive speeches in the House of Commons. He and Bright organized the Anti-Corn Law League to perform the role of an outside pressure group. From the date of its founding, it published thousands of pamphlets, organized innumerable meetings and lectures all across the country, and inundated Parliament with petitions demanding "freedom of commerce, national justice, and the mutual goodwill of mankind."[65]

In 1841, Cobden was elected to Parliament and began his fight for repeal from within the House of Commons, as he and the League maintained outside pressure through a network of affiliated societies around the nation. Year after year, while proposing resolutions to abolish the Corn Laws, the League's leader railed against his colleagues for "maintaining a law which restricts the supply of food to be obtained by the people" and for supporting a law that raised the price of grain for the benefit of agricultural interests. Even during the "time when prices were highest under this law," he declared, "the condition of the agricultural labourers was at the worst."[66] He did not mince words when condemning the beneficiary landlords, noting that they "had the absolute command of the legislature of the country." He argued, "Let the farmer perfectly understand that his prosperity depends upon that of his customers—that the insane policy of this House has been to ruin his customers, and that Acts of Parliament to keep up prices are mere frauds to put rents into landlords' pockets, and to juggle his tenants."[67] Although Cobden seemed to be getting the better of the argument in 1843, in agriculture much depends upon the weather. When 1844 brought a good harvest, reform stagnated.

In the autumn of 1845, however, not only was the rainfall the heaviest in memory, but disease struck Ireland's potato crop, leading to the historic famine. By December of that year, Peel had decided that it was time to repeal the Corn Laws, but a majority of his cabinet remained opposed. When they did not side with him, he resigned for a brief period, but was recalled by Queen Victoria to form a new government and begin the repeal process anew. The debates of the 1846 session of Parliament have been called some of the most dramatic in history, with Peel in the paradoxical position of receiving broad support from all except members of his own party.

The Tory protectionists found in Benjamin Disraeli a brilliant new orator, who attacked Peel as a traitor to his country with unsparing taunts and the virulent personal attacks predicted by Adam Smith. But with support from free-traders and the Whig opposition, Peel was able to secure a majority vote of 327 to 229 to pass the repeal in May. His personal success was short-lived. The following month, on the very day that the repeal passed the House of Lords, Peel was defeated on an unrelated measure in the Commons by a combination of his Tory opponents out for revenge and the Whig opposition seeking to bring down the government for their own advancement. He was thus forced to resign, never to return to office.

In his resignation speech, Peel made a special, selfless effort to give credit to the person he considered most responsible for ending the Corn Laws, his former opponent Richard Cobden. He commended Cobden for his "pure and disinterested motives" and his "appeals to reason, enforced by an eloquence the more to be admired because it was unaffected and unadorned." He concluded with the following aspiration for his own final effort in Parliament that had caused his political demise:

> It may be that I shall leave a name sometimes remembered with expressions of good will in the abodes of those whose lot it is to labour and to earn their daily bread by the sweat of their brow, when they shall recruit their exhausted strength with abundant and untaxed food, the sweeter because it is no longer leavened by a sense of injustice.[68]

The battle for free trade in Britain was now practically won. In 1849, a Whig-controlled government repealed the Navigation Acts, which since 1660 had required most trade through British ports to be on British ships. The fallout from the Corn Law debate had ended the long period of control of Parliament by the Tories, who were mortally divided into factions of old-line protectionists and Peel supporters, now known as Peelites. By 1852, a new coalition of Whigs and Peelites—an early stage of what later became the Liberal Party—formed a new government with Peel's free-trade disciple William Gladstone serving as chancellor of the Exchequer. In a series of budgets from 1853–55 and 1859–65, with the Crimean War causing the interruption of the late 1850s, Gladstone effectively brought free trade to Britain by eliminating all protective duties. In 1860, Britain entered into a commercial treaty with France, which Richard Cobden personally negotiated with Emperor Napoleon III, allowing duty-free importation of French manufactured goods and reduced tariffs for wines in exchange for lower tariffs on British exports to France.

With the bad harvest and potato famine in 1846, Mother Nature had added a critical boost in bringing down the Corn Laws, but the rise of the middle class and the pressures manifested in the Anti-Corn Law League in the years that followed made laissez-faire economic policies not only politically acceptable but imperative. Classical economist John Stuart Mill effectively brought Adam Smith up to date with his *Principles of Political Economy*, which was first published in 1848 and served as the dominant economics textbook in the English language for the next forty years. He put it this way: "*Laisser-faire* [*sic*], in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil."[69]

By the 1860s, free trade was accepted orthodoxy in British politics among all parties hoping to win elections. Even Disraeli, the raging protectionist of the 1840s, accepted the reality that protection was "not only dead but damned."[70] When the Tories finally returned to power in 1874 with Disraeli as prime minister, they made no effort to reverse the political and economic reforms enacted during the previous Liberal Party governments—especially not the free-trade system.

Except for its trade relationship with France during the period when the "Cobden Treaty" was in effect, Britain maintained its free-trade policies unilaterally with respect to its major trading partners. After the Franco-Prussian War, France followed Germany under Bismarck's protectionist trade practices in the late 1870s. With few exceptions, most other European states also had protective trade policies by this time. The United States had become increasingly more protectionist during its first decades of existence until a period of gradual liberalization under the Jacksonian Democratic administrations prevailed in the antebellum years, but American protectionism returned with a vengeance during and after the Civil War. Britain was virtually alone as a proponent of liberal international trade policies among the major economies in the second half of the nineteenth century.

By the early 1880s, a generation after the repeal of the Corn Laws and during a depression and a period of bad harvests, a protectionist movement arose again and formed a "Fair Trade League" that essentially called for "Reciprocity and Retaliation" in dealing with other nations' protectionist trade practices. The Liberals under Gladstone, however, were able to defeat efforts to change the system. They scornfully refused to return to the past miseries that had been inflicted on the working classes in order to keep up the rents of landlords. In 1903, following the Boer War, the Conservatives attempted another move at tariff protection prompted by a group of domestic manufacturers who claimed they were being harmed by cheap American and European imports being "dumped" in British ports.

Conservative colonial secretary Joseph Chamberlain led a major movement to adopt a system of "imperial preferences" to promote trade within the British Empire to the exclusion of exports from the "dumping" nations. Chamberlain's efforts provoked the anger of a rising young Member of Parliament, Winston S. Churchill. Churchill railed against abandoning the "system of free trade and cheap food" under which the British people "had thriven so long,"[71] and he dramatically switched political parties over the issue, leaving the Tories for the Liberals for two decades. Chamberlain's campaign failed in the face of opposition not only from the Liberal Party, but also the Irish Nationalist Party, and the newly formed Labor Party, which feared that wage earners would lose purchasing power with higher tariffs.

It was not until 1915, during the first year of World War I, that the era of free trade began to come to an end in Great Britain. After the first ten months of conspicuous failures in prosecuting the war, the Liberal government formed a coalition with the Conservatives to secure national unity. As one of its first acts, the coalition government introduced a new budget with 33.3 percent tariffs for the purported purposes of limiting luxury imports and saving space on ships. Although the government made promises that the duties would be lifted at the end of the war, the weakness of the Liberal Party and the economic uncertainties in the aftermath of the war made such promises difficult to fulfill. In the turbulent postwar Europe of the 1920s, the British free-traders simply no longer had the political capital to impose their will in Parliament. When the Great Depression began taking its disastrous toll on employment around the world and nations began enacting unprecedented protectionist policies globally, Britain joined in the trade wars, enacting higher import tariffs in 1931 and adopting the imperial preference system within the Commonwealth in 1932.

IMPACT OF THE BRITISH FREE-TRADE ERA

By all measures, the six-decade period in which free-trade policies prevailed in Britain was an unqualified success story. By the mid-1880s Britain dominated the world trade markets in all the major sectors and London had become the financial capital of the world, even as the United States began to eclipse British industrial supremacy. Britain's total trade volume doubled four times following the tariff reductions imposed by Peel and Gladstone beginning in 1842, which brought average duties down from 35 percent to about 8 percent in 1870. At a time when national income was increasing sevenfold, the index of wholesale commodity prices was falling by nearly 60 percent, thus increasing the British consumer's purchasing power sixteen times in the nineteenth century.[72] For the laboring classes, the standard of living, which had been stagnant in the first half of the century, rose sharply between 1850 and 1914. Even though there were difficult periods, such as the "cotton famine" of the 1860s during the American Civil War, a "great depression" that lasted twenty years, and several years of bad harvests, the boom periods created significant boosts in wages as prices continued to fall gradually. With this combination enhancing purchasing power and providing a little surplus available for more than the essentials of food, clothing, and housing, the average workweek also fell from fifty-six to fifty hours between 1860 and 1900, and the working classes began for the first time to have some leisure time.

As working classes grew in prosperity and benefited from political reforms, they joined trade unions to protect their gains and negotiate for better wages and working conditions in the latter part of the century. Most of the union leadership remained firmly supportive of Gladstone politically, as they resisted the socialist ideas that were beginning to take hold in some working-class circles in continental Europe. Even after the formation of the Labour Party, organized labor remained in alliance with the Liberals on free-trade policies to maintain the cost of living gains of the working classes.

This is not to suggest that free trade alone made Britain into a superpower and its working classes well off. Many factors were at play in the development of Britain's industrial and financial strength in the nineteenth century. One must also acknowledge that the improvements in the quality of life seen by the British laborer in this period did not eliminate poverty but only enhanced working conditions above the levels of misery depicted so graphically in the novels of Charles Dickens.

The point here is to illustrate Adam Smith's thesis that protectionist policies for the benefit of special interests deny the working class its natural right to earn a fair wage and access the necessities of life while at the same time inhibiting the wealth of the nation as a whole. The political, social, and economic reforms that evolved in mid-nineteenth-century Britain were in a broad sense associated with liberal trade policies and shared economic progress. The growth of the middle class as a political force came about simultaneously with the formation of the Anti-Corn Law League and effectively ended the political dominance of landed aristocrats. With the tariff reforms of Peel and Gladstone and the repeal of the Corn Laws and the consequential lowering of commodity prices, the living costs of the working classes went down as their wages increased.

IMPACT ON AMERICAN TRADE POLICY

This brief review of Adam Smith's great work and the impact it had on nineteenth-century British trade policy is also important as an introduction to the ensuing chapters, which review the history of the politics of trade in the United States. *The Wealth of Nations* was published in 1776, not inconsequentially the year Thomas Jefferson wrote the Declaration of Independence. Not only had British trade restrictions on the American colonies been one of the causes of the American Revolution, but Jefferson and the other American founding fathers also had much in common intellectually with Smith. They were steeped in the Enlightenment movement, as well as Smith's Lockean views of natural law, and many were committed to putting its ideas to work in their new nation.

Smith's call for a "simple system of natural liberty," where "every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men,"[73] could, with just a bit more flourish, have come from Jefferson's pen. Benjamin Franklin met and became friendly with Smith and Hume in Scotland when he was Pennsylvania's agent in Britain in 1759[74] and is said to have reviewed and commented on parts of the manuscript of *The Wealth of Nations* in meetings with Smith in the early 1770s.[75] Franklin, Jefferson, James Madison, or John Adams could have each written Smith's condemnation of British trade and industrial restrictions on the American colonies—such as the absolute prohibition upon the erection of steel furnaces:

> To prohibit a great people . . . from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind.[76]

Despite the natural sympathy of views between Smith and many of the American founding fathers, other factors intervened and often limited the influence of Smith in the development of trade policy in the young nation. One important factor was the negative legacy of antipathy toward Great Britain following the American Revolution, reinforced by the British invasion of Washington and the burning of the US Capitol and executive mansion during the War of 1812. For much of the nineteenth century, Britain was a domineering political and economic rival whose policies were viewed with contempt in most US political circles. While the classical economists who followed Smith—David Ricardo, James Mill, John Stuart Mill, and others—strengthened the case for free trade in Britain, in America there was a strong move toward protectionism and economic nationalism based upon the economic arguments of men such as Friedrich List and Henry Carey, combined with a political aversion to Britain. Nevertheless, America contained strong free-trade supporters, especially among the merchants and shippers of New England and in the agrarian southern states, who often quoted passages from Smith's book.

The debates in the United States over trade during the development period were almost always two-sided, except during and for an extended time after the American Civil War. Through its classical economists, its economic strength, and its long experiment with free trade, Britain had an important influence on US trade policy in the nineteenth century—though often in the negative. With the elections of Woodrow Wilson in 1912 and Franklin Roosevelt (FDR) in 1932, however, this same British influence—reflected in the legacy of Smith, Gladstone, Bright, and Cobden, so admired by Wilson and Roosevelt's secretary of state, Cordell Hull—laid the foundation for the dominant twentieth-century American trade policy.

As will be seen, the Anglo-American alliance—which Churchill and FDR fostered during the Second World War to fulfill their mutual goals of winning the war and achieving postwar security, prosperity, and full employment—ultimately bore fruit. This relationship was not without serious conflict that could have been fatal to the partnership on several occasions. Nevertheless, the alliance proved critical to the birth of the liberal world economic order embodied in the postwar multilateral trading system.

Part One

From Hamilton to Smoot-Hawley

The Rise and Fall of the US Protectionist System

1

"A Genuine American System"

There are some, who maintain, that trade will regulate itself, and is not to be benefitted by the encouragements, or restraints of government. . . . This is one of those wild speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations. . . . To preserve the ballance of trade in favour of a nation ought to be a leading aim of its policy.[1]

—Alexander Hamilton, 1782

When asked to compare multilateral trade negotiations during the period before the creation of the World Trade Organization in 1994 and those of the twenty-first-century Doha Round, a frustrated senior US trade official points to the growing impact of new members from developing countries. He notes the difficulty in reaching a consensus when, in his view, the developing countries expect all of the market concessions to come from developed countries. "Frankly, you ask yourself," he says, "Why did they join? Didn't anyone tell them that the purpose of the WTO is to liberalize trade?"[2] Representatives of the developing countries commonly reply, "Why do the rich countries expect us to open our markets now, when their markets were effectively closed during their development stage?" And, indeed, they do have a point. Current critics of the United States in the developing world are exactly right when they note that the US economy industrialized in the nineteenth century under the same protectionist trade policies that American negotiators are now seeking to dismantle in developing countries.

In fact, for much of the period from George Washington's first administration in 1789 until the first Franklin Roosevelt administration in 1933, economic nationalism and protective tariffs largely dominated the trade policy of the United States. Protectionism in early America developed very deliberately through high-profile conflicts among a pantheon of prominent figures of the day: Hamilton, Jefferson, Madison, Clay, Jackson, Calhoun, and Webster. Their free trade versus protectionism debates, central to this history, raged in the late eighteenth and early nineteenth centuries; they roiled relations between the regions of the fledgling country, with tariff policy not only playing a large role in economic policy but also driving a wedge between the largely protectionist North and the free-trade South. This wedge, fatally driven by the slavery issue, would eventually lead to the Civil War.

It is no exaggeration to say that tariff and trade policy helped determine the early political and economic course of the United States. Thus, it is no surprise that developing countries would look to those early American trade policies to rationalize protectionist practices in their own development. After all, America's present status as the world's only superpower might suggest to some developing countries that the United States must have done something right in those early years. However, the critical lesson for developing countries—and for the United States—is not that protectionism works, or that it is necessary for development or economic success. Instead, what early American history teaches us is a more basic point: The interests that drive trade policy, on all sides of the debate, are so powerful that they can determine the course of a new nation—and can even drive it toward war.

TRADE OPPRESSION IN THE COLONIES AND CHAOS IN THE NEW CONFEDERATION

Indeed, British industrial and trade restrictions imposed on the American colonies, which bore an evil kinship with "taxation without representation," were a leading cause of the American Revolution. As noted in the Introduction, Adam Smith was highly critical of the prohibition on steel furnaces in the colonies, but the British Parliament also criminalized the manufacture and export in the colonies of most products made in the mother country, including *hats*. In fact, hats could not even "be loaded on a horse, cart, or other carriage, for transportation from one plantation to another [within the colonies]."[3] It is no wonder that three of the most famous American political writers of the period—Benjamin Franklin, Thomas Paine, and Thomas Jefferson—all took up the cause of free trade in the pre-revolutionary period.[4]

The most notorious and momentous example of British excesses in commercial trade oppression of the colonies are the actions leading up to the Tea Act Crisis in 1773. The British East India Company's monopoly of all trade between India and the rest of the empire gave it control of the tea market in America, except for smuggled Dutch tea, but a boycott by the colonists protesting a hefty tax on the tea had caused a glut in its warehouses in England. The new prime minister, Lord North, addressed the problem by reducing the tax and cutting out the English and American middlemen, thus allowing the East India Company to cut its price and compete with the Dutch smugglers. Although the lower cost was tempting, the colonists had had their fill of British-imposed monopolies and refused to unload the shipments in New York and Philadelphia and sent the ships back to England. At the famous "Tea Party" in Boston a band of patriots, thinly disguised as painted Indians, boarded the ships carrying the tea and dumped it into the harbor, as thousands of Bostonians cheered them on. This action naturally infuriated the British, who retaliated the following spring of 1774 by passing the Coercive Acts, one of which closed Boston Harbor to all commerce until the colonists paid for the sabotaged tea.

These Coercive Acts, renamed the "Intolerable Acts" by the Americans, prompted the Massachusetts colonists to call for a meeting of delegates from all the colonies to take joint action to defend themselves against British colonial actions. This call led to the First Continental Congress in Philadelphia in September 1774, where the delegates organized a "Continental Association" to ban exports to Britain and boycott British goods. They also passed a resolution condemning British actions since 1763, and endorsed taking up arms to defend their rights. Although not many colonists were ready to declare independence, the revolution was effectively under way. Two years later, Thomas Jefferson included King George III's assent to Parliament's "cutting off our Trade with all parts of the world" prominently among the list of grievances justifying the Declaration of Independence.

The Revolutionary War interrupted most international commerce and out of necessity forced the birth of American domestic manufacturing. At the end of the war in 1783, however, new complexities arose as foreign trade resumed. Under the Articles of Confederation, which governed the United States from 1781 until 1789, Congress had no authority to regulate trade; rather, each state regulated its own trade, imposing such duties as it desired—not only on foreign products but also on those of its sister states. There was no uniformity of rates of duties. States with new industries considered vulnerable to imports erected high tariff barriers. States with commercial or export interests enacted few or no tariffs. Savvy foreign traders and importers simply brought their products into the country through the ports of states with low tariffs. Some states also enacted their own navigation laws, requiring shipments through their ports to be on vessels built in their state. At the same time, foreign governments, especially the British, imposed strict barriers to US products and shipping, thus leaving the states to fight trade wars among themselves with no tariff revenues available for national debt requirements. Adding to the confusion, a postwar import surge exacerbated the severe economic conditions and intensified the interstate rivalries.

There were many reasons motivating Congress to organize the 1787 Constitutional Convention in Philadelphia for the "express purpose of revising the Articles of Confederation," but clearly a principal reason was to resolve the fiscal questions plaguing the country, foremost among them trade issues. One of the primary authors of the Constitution, James Madison, explained in a letter to Thomas Jefferson: "Most of our political evils may be traced to our commercial ones."[5] Madison had attempted to convene a meeting of state delegations to address problems of trade and commerce in the Confederation at Annapolis the year before but failed to attract a quorum. The delegates who made it to Annapolis adopted a resolution, drafted by Alexander Hamilton of New York, calling for the Constitutional Convention at Philadelphia the next year.

Richard Henry Lee, later an arch Anti-Federalist leader in the fight against ratification of the Constitution in Virginia, observed on the second day of the Philadelphia convention:

> The present causes of complaint seem to be, that Congress cannot command the money necessary for the just purposes of paying

debts, or for supporting the federal government, and that they cannot make treaties of commerce, unless power unlimited, of regulating trade be given.[6]

One of the strongest arguments for the new Constitution at the convention and during the ratification process was the need to centralize trade regulation with Congress in order to deal effectively with the oppressive European trading powers and to generate public revenue. It was no surprise when the framers of the Constitution proposed that Congress have the power to collect taxes and duties and to regulate commerce with foreign nations, and among the several states. Following ratification in 1788 by a sufficient number of states, Congress wasted no time in exercising its new powers.

The first legislative measure passed by the United States Congress, the Tariff Act of 1789, had as its purpose not only the generation of revenue, but also "the encouragement and protection of manufactures."[7] It incorporated into federal law some of the protective duties previously imposed independently by the states under the Articles of Confederation. But, subject to compromise among the conflicting state interests, the rates, ranging from 5 to 15 percent with an 8.5 percent average duty, were actually quite moderate by most protectionist standards. The northern and middle states preferred higher protection for their struggling industries, while the southern states wanted low tariffs to avoid retaliation against their agricultural exports. Pennsylvania sought high iron and steel tariffs, which were opposed by New Englanders needing these metals for shipbuilding, as well as by southerners who used them for agricultural implements. While this first tariff act reflected a degree of protectionist spirit and intent, it largely favored the prevailing agrarian and commercial interests that thrived on European trade in the late eighteenth century.

ALEXANDER HAMILTON: FOUNDING FATHER OF AMERICAN PROTECTIONISM

Moderate trade policies, however, were not the prevailing philosophy of President George Washington's top economic cabinet officer. Treasury Secretary Alexander Hamilton, in fact, established himself as the founding father of American protectionism when he submitted to Congress his *Report*

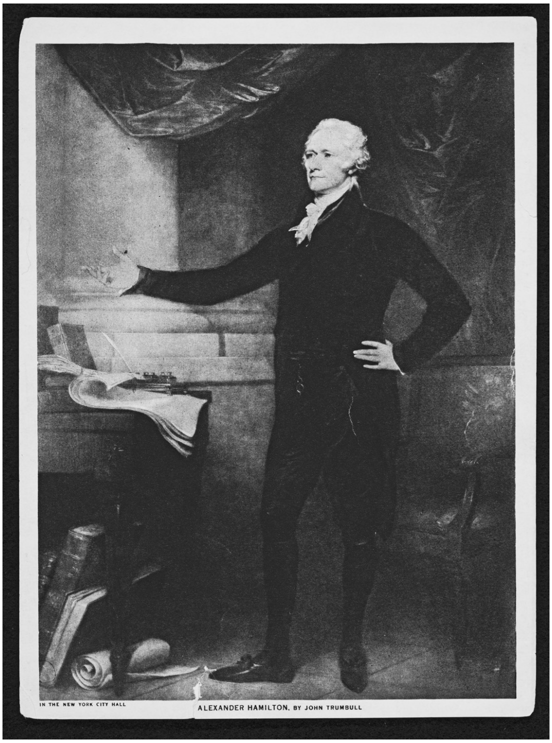

FIGURE 1.1 Alexander Hamilton, John Trumbull 1805 painting (Library of Congress)

on Manufactures—a plan advocating government support for American industry—on December 5, 1791.[8] Hamilton, brilliant and highly educated in the literature of his age, was well versed in the arguments for free trade in Adam Smith's treatise, *The Wealth of Nations*, first published only fifteen years prior to Hamilton's *Report*. From a purely comparative cost and advantage standpoint, he conceded that the United States could more efficiently produce agricultural products than industrial products. "If the system of perfect liberty to industry and commerce were the prevailing system of nations," and a "free exchange, mutually beneficial" could be concluded, the United States might indeed be better off trading farm exports for manufactured imports from other nations with better industrial capabilities and efficiencies and refraining from pursuing its own manufacturing industries. This was a reference to the prescription of his bitter political rival, Secretary of State Thomas Jefferson, who led a partisan faction opposed to industrialization in what Jefferson considered the American agrarian utopia.

The problem in Hamilton's view was that such a world of free exchange did not exist and, according to him, the "regulations of several countries, with which we have most extensive intercourse, throw serious obstructions in the way of the principal staples of the United States."[9] Under these conditions, Hamilton argued that the United States could not trade with Europe on equal terms and, consequently, it was necessary to have an economy based in both manufacturing and agriculture in the competitive and unfair trading world that then existed. Further, he concluded, "If Europe will not take from us the products of our soil, upon terms consistent with our interest, the natural remedy is to contract as fast as possible our wants of her."[10]

The *Report* also made a direct attack on Smith's invisible hand doctrine, which Hamilton paraphrased as "the proposition, that Industry, if left to itself, will naturally find its way to the most useful and profitable employment: whence it is inferred that manufactures without the aid of government will grow up as soon and as fast, as the natural state of things and the interest of the community may require."[11] Hamilton held this proposition to be unrealistic in the case of start-up enterprises, which "have to contend not only with the natural disadvantages of a new undertaking, but with the gratuities and remunerations which other governments bestow [upon its industries]."[12] In the real world, mercantilist trade practices still prevailed. Agricultural exporters and infant industries of America were up against well-seasoned European traders. Therefore, according to Hamilton, government aid and interference would be indispensable.

After completing his analysis refuting the free-trade principles of Adam Smith as they might apply in the developing American economy, Hamilton offered a litany of proposals "of the Means proper to be resorted to by the United [S]tates . . . which have been employed with success in other Countries."[13] His list included items that are very familiar to modern trade lawyers and negotiators who are still trying to eliminate them as unfair trade practices in the twenty-first century.

First, he proposed setting tariffs sufficiently high on imports of products competitive with domestic products to allow the domestic manufacturers to "undersell" the foreign producers and to generate revenue. On some products, where the domestic market was sufficiently competitive and domestic manufacturers provided an adequate supply "on reasonable terms," he would set duties at prohibitively high levels, or ban their imports outright in order to create a domestic monopoly for United States citizens. This policy, according to Hamilton, was "dictated, it might almost be said, by the principles of distributive justice," considering that it was "the reigning policy of manufacturing Nations" to give a monopoly of the domestic market to its own manufacturers. Surely, he thought, it was the duty of the United States to endeavor to secure to its citizens "a reciprocity of advantages."[14]

Second, Hamilton proposed a low tariff rate for raw materials required for domestic manufacturing and sought a prohibition on the exportation of materials used by domestic manufacturers to ensure a "cheap and plentiful supply" of materials—of a special quality or limited quantity—needed in particular industries. In addition, tariffs imposed on imported inputs needed for American manufacturers would be rebated with the producer's exports. According to Hamilton's reasoning, these measures would enable the young nation to develop a manufacturing base. Without them, he believed that American industry would not have the wherewithal to compete with other countries, and consequently would be smothered by foreign imports.

Third, Hamilton offered a long, strained justification for "pecuniary bounties" or subsidies. He said these various forms of government payments to private businesses were "the most efficacious means of encouraging manufactures, and, is in some views, the best."[15] He admitted that there was a prejudice against them because of the "appearance of giving away public money without an immediate consideration, and from a supposition that they serve to enrich particular classes, at the expense of the Community." In the case of new or "infant" industries, he argued, the subsidies were justifiable and often necessary, and, therefore, validated under a broad and controversial definition of the authority given to Congress to "provide for the common defense and *general welfare*" in the Constitution.[16]

Fourth, Hamilton advocated government payments to manufacturing societies to reward excellence, skill, and superiority in production. He was, in effect, arguing that subsidies would encourage the entrepreneurship of American manufacturers. Without them, Hamilton contended, the American manufacturer would have less incentive to expand his means of production. Consequently, the United States would lag behind the industrialized nations of Europe and never be able to compete with them. Unlike Adam Smith, he was arguing for a *helping hand*, since he believed an "invisible hand" only worked when a nation had reached a level equivalent to the richer nations of the earth "where there is great private wealth." But, "in a community situated like that of the United States, the public purse must