



# OPEN BORDERS: THE MORALITY OF FREE TRADE



NIGEL ASHFORD



There is now a massive literature on free trade, overwhelmingly positive, despite the opposition of politicians such as Sir James Goldsmith and Ross Perot. However it is almost exclusively economic, and concentrates on goods and services. The focus here is on the moral and political consequences of free trade. After defining free trade as the four freedoms, the paper presents the moral values promoted by free trade: peace, freedom, human rights, democracy and social trust.

## THE FOUR FREEDOMS

Free trade can be defined in terms of the four freedoms: the free movement of goods and services, capital and people. This principle should apply to all transactions, but has come to mean transactions across national borders. These four freedoms, of course, were the founding principles of the European Economic Community. (How far has it deviated from them?) They highlight that 'trade' involves goods and

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www.libertarian.co.uk email: admin@libertarian.co.uk

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Dr. Nigel Ashford is Principal Lecturer in Politics at Staffordshire University.  
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Director: Dr Chris R. Tame Editorial Director: Brian Micklethwait  
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services, but also includes capital investment across borders, and labour contracts between employer and employee of different nationalities. These principles are more dramatically summed up in the nineteenth century cry for 'laissez-faire, laissez passer', let them act, let them move. Regrettably only the former phrase is now remembered.

History shows that trade is natural; left to themselves free people will seek to trade with others in pursuit of their own self-interest, combined with a sense of adventure. Friedrich Hayek showed how free trade developed spontaneously without states.<sup>1</sup> In the nineteenth century there were open borders with the real possibility of free exchange and travel. The historian Gustav Stolpe described the era in *The Age of Fable* (1942) in terms of the three freedoms.

“They were freedom of movement for men, for goods and for money. Everyone could leave his country when he wanted and travel and migrate wherever he pleased without a passport. The only European country that demanded passports (and not even visas!) was Russia. ... Who wanted to travel in Russia anyway?”<sup>2</sup>

## THE MORALITY OF FREE TRADE

### Peace

Another forgotten phrase of nineteenth century liberals was “if goods do not cross borders, soldiers will”. Liberals believed there were no irreconcilable interests between nations. Trade creates the social conditions that reduce the causes of war and aggression because it increases satisfaction with the standard of living and recognises the essential humanity of other people. The Manchester School of intellectuals, led by Richard Cobden and John Bright, organised the Anti-Corn Law League to advocate the abolition of the Corn Laws, the British predecessor to the Common Agricultural Policy, achieving their goal in 1846. They were motivated primarily not by the economic benefits, although they were considerable, but by trade as a contributor to peace. Richard Cobden proclaimed that “free trade would have the tendency to unite mankind in the bonds of peace, and it was that, more than any pecuniary consideration, which sustained and actuated me in that struggle.”<sup>3</sup> This was also the primary motivation for Cobden’s vital role in negotiating with France a free trade treaty in 1860.

Cobden declared:

“Free trade! What is it? Why, breaking down the barriers that separate nations; those barriers, behind which nestle the feelings of pride, revenge, hatred, and jealousy, which every now and then burst their bounds, and deluge whole countries with blood; those feelings which nourish the poison of war and conquest, which assert that without conquest we can have no trade, which foster

that lust for conquest and dominion which sends forth your warrior chiefs to scatter devastation through other lands, and then calls them back that they may be enthroned secretly in your passions, but only to harass and oppress you at home.”<sup>4</sup>

Trade domestically is not a cause of conflict and war so why should it be internationally? International trade wars only exist as economic warfare when there is government intervention. Economic interdependence increases peace and harmony. It is tariffs and other barriers which create conflict and friction between nations and domestic interventions do the same. Ludwig von Mises in *Omnipotent Government: The Rise of Total Government and Total War* warned that the greater the role of government, the greater the risk of war.<sup>5</sup>

It is frequently claimed that capitalism leads to war, yet war is not in the interests of business whose capacity to trade is severely damaged. Capitalism is a society of free traders based on free markets, whilst war is the enemy of trade: it is expensive, destructive of property, damages relations with prospective partners, and increases taxes. As Ayn Rand noted:

“The trader and the warrior have been fundamental antagonists throughout history. Trade does not flourish on the battlefields, factories do not produce under bombardments, profits do not grow on rubble.”<sup>6</sup>

A world of diverse cultures, values and beliefs has great potential for conflict, which is reduced by economic relations which cares little for those differences compared with the ability to conduct relations for mutual profit. Economic interdependence fosters harmonious behaviour between nations that otherwise differ in culture and institutions. Francis Fukuyama in his famous work on *The End of History* argued that economic globalisation and the international division of labour has required all societies to participate if they wish to achieve higher standards of living, and that economic success requires peaceful relations with your neighbours and other countries. He declared this globalisation as “the ultimate victory of the VCR”.<sup>7</sup>

The desire for peace through economic integration, especially between Germany and France, was one of the goals of the European Community. Chancellor Kohl of Germany in his campaign for a federal Europe warns of the danger of war if political integration does not proceed. However economic integration, in the form of the four freedoms, is sufficient to achieve peace. Political integration is unnecessary, as war is already inconceivable between the member states of the EU.

### Freedom

A free person has the right to do whatever he wants with his own life, including the ability to buy, sell, invest, borrow, work for and employ whomever he

wishes. This natural right to 'life, liberty and the pursuit of happiness' is denied by national barriers. Genuine freedom, to pursue one's own values and interests, requires free trade. "Work at what you want, trade with whomever you wish, live wherever you feel happiest", as Richard Eberling proclaimed.<sup>8</sup> Why should the pursuit of your dreams and ambitions be limited to your country of birth?

### Human Rights

There is rightly a concern about the denial of human rights to so much of the population of the world, although the concept of human rights has become frequently misrepresented.<sup>9</sup> However, most of the human rights movement is wrong on the means of promoting human rights, often demanding boycotts or sanctions against those governments who fail to respect those rights on a massive scale. To influence such a society, it is best to maximise contacts with the rest of the world. Free people have nothing to fear from such activity, and truth and freedom will always benefit. There has been a neglect of the role of business and travellers in promoting the ideas that led to the collapse of communism in the Soviet Union and apartheid in South Africa. Local interaction with visitors undermined the regimes, whether in the form of buyers and sellers, tourists, academics, or visitors of any sort. Every visitor who asked why a Jew could not emigrate, or why a black cannot do a job as well as a white, undermined the legitimacy of the regime.

Merle Lipton illustrated this in the context of South Africa in her book on *Capitalism and Apartheid* by showing how foreign investors and firms were a powerful instrument for weakening apartheid, e.g. in the education, training and promotion of black workers.<sup>10</sup> They were not a prop of the system, but contributed to the removal of some of the props. It was for this reason that sanctions, economic and sporting, were a mistake. Sanctions were not the cause of the collapse of apartheid, as the boycotters now claim, but delayed that collapse by contributing to the sense of social isolation and encirclement of the South African regime, the 'laager' mentality. One should be against sanctions for human rights abuses elsewhere, e.g. in the current debate about recognition of China with 'most favoured nation' status in the World Trade Organisation (WTO), or in the US embargo against Cuba, reinforced by the Helms-Burton Act which seeks to extend the embargo to non-US companies. Businessmen are the unintended subversives of authoritarian and totalitarian regimes.

### Democracy

Unlimited majoritarian democracy is a threat to freedom, but a political system based on the consent of the governed remains the best protector of freedom compared to other regimes. There is now an extensive literature on the relationship between economic development and democracy, prominently associated with

Seymour Martin Lipset.<sup>11</sup> Lipset argues that economic development is a precondition for stable democracies. He does not reflect on how such development is related to the degree of trade with other nations and integration in the world economy.

Francis Fukuyama has surveyed the evidence and identified a "very strong overall correlation between advancing socio-economic modernisation and the emergence of new democracies."<sup>12</sup> He related it to the struggle for recognition: an increasing standard of living leads to greater education, search for recognition, increased self worth, and the desire for recognition as a political equal.

In Spain under the Franco regime, the Commissar for Economic Development believed that Spain would only be ready for democracy when it reached a *per capita* income of \$2,000. Democracy arrived when it was \$2,446.<sup>13</sup> Spain achieved that higher income as a result of international trade. It would have taken very much longer if sanctions had been imposed on a so-called fascist dictatorship.

If democracy is supposed to represent the interests of the people as a whole, then protectionism is anti-democratic because it promotes the special interests. Frederic Bastiat described protection as a species of "legalized plunder" in *The Law*.<sup>14</sup> The classical economists were clear about the damaging effects on the political system. J. B. Say was a French nineteenth century economist and the author of Say's Law: that supply creates its own demand. He wrote that:

"If one individual or one class can call in the aid of the (political) authority to ward off the effects of competition, it acquires a privilege to the prejudice and at the cost of the whole community."<sup>15</sup>

Alfred Marshall, the founder of marginal utility theory, believed that protectionism corrupts politics, because of the special interests that it creates. Edmund Burke saw this in his attack on the corrupt regime of Warren Hastings in India. Despite recent liberalisation, the widespread corruption of Indian politics today is associated with attempts to use regulations, tariffs and quotas to exclude foreign competition.

Vilfredo Pareto noted:

"A protectionist measure provides a large benefit to a small number of people and causes a great number of consumers a slight loss. These circumstances makes it easier to put a protectionist measure into practice."<sup>16</sup>

Economists now call this rent-seeking, defined as directly unproductive profit seeking behaviour. It is through manipulation of the political laws and regulations that a firm or industry maximises its profits. Mancur Olson discusses this in his famous book on *The Rise and Decline of Nations*.<sup>17</sup> It is the classic problem of "concentrated benefits and dispersed

costs”, where the beneficiaries are in the industry protected and the losers are the disorganised consumers of the product. It is further compounded when the producers affected are in another country without access to the political system. There is a failure to recognise the affect on the standard of living of consumers, and the jobs lost as a result of opportunity costs and inability to sell abroad.

Protectionism contributes to the corruption of the political system by encouraging special interests to form, whose policies seek to favour themselves at the expense of the general population in the form of tariffs, quotas and regulations. Instead of seeking to identify more general interests, such as public goods like protection from external enemies, the politicians become sensitive to the special interests. In order to avoid the recognition of the costs for the public as consumers, there, is a lack of transparency about the relationship between politicians and protectionist lobbies.

### Social Capital

One of the hottest topics currently in the social sciences is the issue of social capital, which has been defined by Robert Putnam as:

“the networks, norms and trust that enable participants to act more effectively in pursuit of common objectives. ... in short, social connections and the attendant norms and trust.”<sup>18</sup>

Fukuyama’s book *Trust* is also concerned to locate the sources of success in social capital, defined as the capacity to trust those beyond the immediate family.<sup>19</sup> Students of Italy explain the poverty and backwardness of southern Italy with the lack of trust beyond the family, described in Edward Banfield’s study as “amoral familism”, which can be contrasted with Robert Putnam’s study of Northern Italy and its success which he attributes to a wider sense of trust.<sup>20</sup> This led Putnam to explore the decline of social capital in the US in his famous discussion of “Bowling Alone”.

He ignores, however, the relationship between trade and the creation of trust. The division of labour requires cooperation, thus providing an incentive to trust and friendship. The fewer the traders, the fewer to know and the less need to respect others. Protectionism and economic nationalism spreads antagonism, animosity and enmity. Trade is a form of association and cooperation which helps to build communities.

Robert Axelrod examined the problem of how to maximise social cooperation and avoid social conflict and mistrust.<sup>21</sup> He tried to discover it through a series of computer games, from which emerged the most successful strategy as ‘tit for tat’. One should always keep one’s promises, but if another actor broke there’s it was legitimate to punish them once, but then one should hold to the agreements unless the other actor broke it again. This is best maintained in a system of

global free trade where the chances of repeat cooperation are maximised.

### THE MORALITY OF INTERNATIONAL CAPITALISM

Current protectionists attack free trade for sacrificing cultural and moral values at the altar of economic materialism, but this paper shows that free trade stimulates and encourages fundamental moral values: peace, freedom, human rights, democracy and trust. This is why international capitalism, market globalisation and multinational corporations are to be welcomed not only for their contribution to material prosperity but also for creating a better world.

### NOTES

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