

An Open Letter To Advocates of International Free Trade

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Dear advocate of free trade,

I salute your support for international free trade. The argument in favor of international free trade is originally based on David Ricardo's principle of comparative advantages. It tells us that even in the case where one country is better than another in all lines of business, i.e. in an absolute sense, that country still has all reason to cooperate with the less productive one. If they specialize in the areas where they have an advantage relative to others, i.e. in a comparative sense, and then trade with each other, the wealth of both parties increases. Barriers to trade, like for example tariffs, make it hard or impossible for the less productive country to exploit its comparative advantages, thus inhibiting the creation of more wealth. This message, presumably, is well known to you.

But why restrict this reasoning to trade over national borders? Does it not also apply to trade within the borders of a country? I believe it does, and let me explain why.

One of the most characteristic features of today's society is the division of labor and specialization. But although the merits of division of labor are widely acknowledged, with it follows a perceived implication of great importance; if the person who is best at extracting teeth becomes a dentist and the best woodworker a carpenter, the conclusion is that those who aren't best at anything will end up outside society. And it is, after all, a fact that the lives of many people in today's society have ended in poverty and misery, while others live well, and that many have lost out in the competition. We do live in a Darwinist society of the survival of the fittest, with advanced division of labor. From this, two common standpoints would seem to follow; either you end up believing that the division of labor is a moral outrage, despite its efficiency, or you end up believing that because the division of labor is so efficient, and because so many benefit so much from it, the idea of some people being pushed outside society is somehow acceptable – some kind of welfare system and taxation will supposedly take care of those problems. Despite the apparent popularity of these two views, there is nevertheless no need to hold either of them. Instead, it seems possible to defend the merits of division of labor while discarding the idea of a society where only the fittest survive. In fact, this is one of the main points the message tries to communicate to you. Please bear with me a little longer.

According to the famous Ricardian principle, the international division of labor is made according to comparative advantages. But this also holds for the division of labor at all other levels of society. In fact, all trade, international as well as domestic, stems from the same source – the comparative advantage of the individual. Almost all of us specialize in the area that we are best

in relative to others. There will almost always be someone who could potentially perform a task better than you. Even if you are the very best in an absolute sense, you will have had to rely on your comparative advantage to get there. The dentist thus finds it worthwhile to cooperate with the carpenter even though he might potentially be a better carpenter, and so on. The comparative advantage of the individual then lends itself to groups of people, companies, regions and countries. The comparative advantages could thus be seen as the glue of society. It is these that make it worthwhile for people to cooperate on any larger scale at all. They guarantee that there will be room for everybody. The division of labor according to the principle of comparative advantages could hence be considered the ultimate form of cooperation among humans.

But just as tariffs ruin the international division of labor, it should not come as any surprise that taxes and similar interventionism destroy the domestic division of labor among people. The result is not only more home labor and more black markets, but also real barter and the fact that nothing gets done at all. The least productive and those that face the highest barriers to trade run the risk of ending up on the outskirts of society. More productive people will run the risk of overreaching as they are forced to perform more and more tasks themselves. As taxes make cooperation and free trade among people increasingly expensive, the dentist will find it harder to hire the carpenter and the carpenter will find it harder to afford to take the kids to the dentist. Instead of a society where there is room for everyone, a society is created where perhaps not even the fittest will live well. Instead of free and harmonious cooperation, antagonism and conflicts are created. As Ludwig von Mises concluded, the division of labor according to comparative advantages "leads men to regard each other as comrades in a joint struggle for welfare, rather than competitors in a struggle for existence. It makes friends out of enemies, peace out of war, society out of individuals."

Hence, it is not the free division of labor and free trade that is to be regarded as an outrage, but the restrictions on division of labor and trade. By not allowing people to explore their comparative advantages, they are sent into trouble. This is what taxation does. This is in some ways worse than tariffs, since a country could trade freely domestically and in that way grow wealthy. That option is not open to an individual outside of the division of labor. Taxation and so-called welfare systems aren't solutions, but part of the cause of the problems.

One might find it conceivable that some level of taxation could be maintained without the risk of running people into poverty and misery. Nevertheless, even the most modest taxation will always affect someone, somewhere, very negatively and this is likely to be the least productive of us. Thus, it seems important to keep in mind these detrimental effects on people's comparative advantages and on the division of labor when arguing in favor of taxation. This also holds in the case when arguing that a certain minimum level of taxation is required to sustain society. Relying on taxation to assist the poor will inevitably create more poor people.

Just as those who advocate tariffs and international trade restrictions will have to bear the heavy moral burden of some of the problems of poor countries, those who continue to argue in favor of taxation seem to have to bear the moral burden of shattering peoples dreams and hopes, and even of excluding people from society. One might at least expect this aspect to be taken into account whenever the merits of taxation are being exalted.

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With this letter to you, I hope you will start taking your own arguments in favor of free trade seriously, to their utmost implications. It is time to start advocating universal free trade, i.e. both international and domestic. It is time to tear down all restrictions and barriers to trade. In this way, the weak and the fit will find it worthwhile to work together and help each other again. In this way, more wealth can be created and the future of society will look brighter.

And remember, dear friend of free trade, it is for reasons you already have accepted.

Thank you.

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PS. Please feel free to spread this letter as far and wide as you like. I would greatly appreciate it if you would kindly refer to me and my website. For further reading, please refer to my paper 'Taxation and Domestic Free Trade', available at my website.