

# When Free Trade First Faltered

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## GLOBALIZATION'S FIRST AGE SOME 200 YEARS AGO HELD CONTRADICTIONS THAT SHED LIGHT ON TODAY'S TURN TOWARD ECONOMIC NATIONALISM

The “first age” of globalization was beset by contradictions. In the 60 years or so before World War I, global trade grew rapidly despite the ever-higher tariff walls built by the rising protectionist empires of the United States, Germany, Russia, France, and Japan. Geopolitical conflicts and trade wars grew more common even as markets became more integrated. These contradictions were at the heart of heated debates over free trade and economic nationalism that dominated the industrializing world at the time.

Emerging economic nationalism today eerily echoes the first age of globalization—and is an even bigger bundle of contradictions. Nationalist forces reemerged from the Great Recession of 2008–09 as a potent political and economic force across the globe. And yet ours is a world of extraordinary economic interdependence wrought from technological marvels, the likes of which the science fiction writer Jules Verne could only dream.

Between the 1840s and 1860s, trade liberaliza-

tion appeared to be the name of the globalization game. Britain ushered in the mid-century flirtation with free trade, when the island nation’s liberals successfully overturned the Corn Laws. These protective tariffs on foreign grain benefited landed aristocrats but forced the working-class poor to pay more to feed themselves. Britain’s free-trade advocates made a compelling case to the public that getting rid of grain tariffs would usher in a new era of cheap and plentiful food for the hungry masses pouring into its industrial centers.

But they also made a compelling case that a peaceful and prosperous world of economic interdependence was possible—if Britain’s imperial rivals also liberalized their markets. After all, why seize colonies or wage war over raw materials when the world’s products could be purchased through peaceful market competition? As Richard Cobden, Britain’s mid-century “apostle of free trade,” put it, trade liberalization would so unite the world that militant landed elites could no longer “plunge their people into wars.”

The Anti-Corn Law League meets in Drury Lane Theatre, London, 1838.





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## The national system

Some, like the German-American protectionist theorist Friedrich List, disagreed. During his US exile, List updated Alexander Hamilton's 18th century economic nationalist vision for the rapidly globalizing world of the 1840s. After returning to Germany, he published his 1841 magnum opus, *The National System of Political Economy*, in the hope of countering the cosmopolitan call of free trade.

The British had, he warned, relied on decades of protectionism to reach the industrial summit. They now sought to "kick away the ladder" so that others could not challenge their position as "manufacturer of the world." List called on Britain's imperial rivals to establish strong nation-states—with high tariffs to foster "infant" industries into adulthood and colonial expansion to exploit the raw materials of Latin America, Asia, and Africa.

List's imperial protectionist proposal fell on deaf European and American ears at the time. Advocates of trade liberalization seemed poised to win the day. In 1846, Britain's liberal free-trade visionaries celebrated the demise of the Corn Laws. Thanks to Cobden and his middle-class supporters, Britain became the first imperial power to unilaterally embrace free trade. Cobden's non-interventionist wing in Parliament also fought unsuccessfully against coercive mid-century free-trade policies in colonial spaces such as India and China.

Cobden and his followers next turned their free-trade attention to the US and the European continent. In 1846, the US followed Britain's lead and substantially lowered its tariffs. European trade liberalization, however, required more diplomacy. The 1860 Anglo-French (or Cobden-Chevalier) commercial treaty signaled that Europe's two biggest imperial rivals might be ready to turn their swords into ploughshares. The treaty's innovative inclusion of a most-favored-nation clause granted other European powers the same low tariff treatment if they responded in kind. About 50 or 60 trade treaties were signed, locking Europe into what was effectively its first common market.

## Technological tools

A more liberal economic order was coming, and the technological tools of globalization's first age seemed well placed to tie it all together. Transoceanic steamship lines drastically lowered transportation costs and travel times. The transatlantic cable, successfully laid in 1866, meant that messages between Wall Street and the City of London took mere minutes. The opening of the Suez Canal in Egypt and the completion of the US transcontinental railway in 1869 shrank the world even further. These developments sparked the globalist imagi-

nation, including Jules Verne's *Around the World in Eighty Days* (1872).

But globalization's unprecedented interdependence soon landed the industrializing world in an unpredictable boom-bust economic cycle. Low transportation costs, mass industrialization, and trade liberalization cut costs for consumers, but the steep fall in prices also meant tighter profit margins, or even losses, for many of the world's exporters. The British-led gold standard greased the wheels of international trade, but its deflationary effects spelled doom for many debt-ridden agrarians and manufacturers.

The first age of globalization was facing the first Great Depression (1873–96), and protectionism and colonialism were the policies of choice of the industrializing world. Globalization's protesters grew louder. As is common during economic crisis, cries for national self-sufficiency drowned out calls for cosmopolitan comity. Free trade fell out of fashion among Britain's imperial rivals, who rediscovered the protectionist ideas of List, catapulting him from pariah to prophet.

## Economic conspiracy

Imperial-minded economic nationalists across the globe began to revere List's national system as economic divination. Free trade was seen as part of a vast British conspiracy to thwart the industrialization projects of rivals—a self-serving trick to undermine emerging industries elsewhere. List-inspired economic nationalists saw geopolitics as a zero-sum game in which only the fittest would survive.

The technological tools of globalization that not so long ago promised to tie the world together in benign universalism now seemed better suited for binding colonies to imperial metropolises. Tariff walls grew ever higher, turning infant industries into monopolies, cartels, and trusts. Monopoly-induced market inefficiencies at home soon sparked an interimperial search for new markets to export surplus capital and acquire raw materials. Trade wars, military interventions, and the scramble for colonies in Africa and Asia picked up pace.

By 1880, economic nationalists had the upper hand. Their imperial protectionist politics moved ever more to the right. In the US, the Republican Party rebranded itself as the party of protectionism and big business, reversing the freer trade trend of the preceding decades. The 1890 McKinley Tariff, which imposed an unprecedented average rate of about 50 percent, plunged the country into trade wars with European trading partners.

But the Benjamin Harrison administration encouraged the tariff's passage with one particular imperial acquisition in mind: Canada. It hoped that

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the British-controlled northern neighbor would seek admission to the US rather than pay the exorbitantly high tariff. Canada’s Conservative Party instead established closer economic ties within the British Empire; the newly completed Canadian Pacific Railway made Canada a land bridge connecting Britain with its far-flung colonies in the Pacific.

In Germany, Otto von Bismarck, who was rumored to keep *The National System* as bedside reading, in Listian fashion consolidated the German states, erected tariff walls around them, and looked abroad for new colonies. His successor, Wilhelm II, started construction of the Berlin-to-Baghdad railway to better connect them. And in Russia, Count Sergei Witte explicitly styled himself after List. Whether as director of railway affairs, finance minister, or prime minister, Witte remained well placed from the early 1890s to start construction of the Trans-Siberian railway to facilitate Russia’s imperial designs on Manchuria. Similar economic nationalist stories played out within the empires of France and Japan.

Marginalized liberal defenders of free trade turned to grassroots organizing to stem the mounting protectionist imperial tide. In the US, Henry George, a San Francisco journalist, wrote *Progress and Poverty* (1879), an international bestseller and a road map for breaking up the land monopolies of the railway tycoons, aristocrats, and speculators, by imposing a tax on the potential value of land. His idea became known as Georgism, or the “single tax,” because it promised to do away with all other forms of taxation, including tariffs.

The single-tax movement’s promotion of an interdependent world of absolute free trade devoid of land monopolies found an international welcome. Russian writer and pacifist Leo Tolstoy became an ardent disciple, believing that the single tax was the antidote to the poison of serfdom. While residing in

a single-tax colony in the US, a young Georgist radical named Lizzie Magie in 1904 patented a board game to teach young and old alike about the evils of exploitative land rents—giving birth to what is now the world’s most popular board game, Monopoly. In 1912, the Republic of China’s newly minted provisional president, Sun Yat-Sen, stepped down from the role to devote himself to promoting the “teachings of your single taxer, Henry George,” and grow his nation into an “industrious, peace-loving, prosperous people.”

### Monopoly capitalism

Britain’s Edwardian free traders sought to make sense of the symbiotic relationship between monopolies, protectionism, and imperialism—or “monopoly capitalism”—that had come to define the first age of globalization. The Georgist “Land Song” was a rip-roaring anthem sung at Liberal Party gatherings.

At the same time, the economist J. A. Hobson enunciated one of the most scathing critiques of monopoly capitalism and the scramble for colonies in *Imperialism: A Study* (1902). Eight years later, Norman Angell, a journalist, became so concerned about a looming global conflict that he warned of the “great illusion” that any nation could win from war: World markets were so interdependent that even the so-called winners would lose. The outbreak of World War I four years later proved him right.

The similarities between then and now are hiding in plain sight. The quarter century between the end of the Corn Laws in 1846 and the start of the global turn to protectionism in the early 1870s saw unprecedented trade liberalization, as did the 25 years after the end of the Cold War. And much as the 19th century liberal free-trade advocates underappreciated the political appeal of nationalism and economic self-sufficiency, so too were their intellectual successors in the late 20th century precipitous in predicting the end of the nation-state—and even the end of history.

Because history hasn’t ended, it remains a useful guide. Today’s cosmopolitan supporters of economic interdependence should understand how their counterparts more than a century ago fought to transform their economic nationalist era of globalization into a more peaceful and equitable free-trade world. Their longer-term successes are a testament to how international cooperation can counteract nationalist-driven conflict. **F&D**

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