Name ______________________ Date ________________ Class ______________________

PRIMARY & SECONDARY SOURCES Reading 22

TRADING BLOCKS

Trade barriers have been used throughout history as means of preserving jobs and protecting a nation's economy. Today, protectionism is as prevalent in the fight for free trade as it has always been. As you read this article by Wall Street Journal *reporter Helene Cooper, consider the history of trade barriers, how they have endured over time, and what that they could mean for the future of free trade. Then answer the questions that follow.*

"It is always better to sell goods to others than to buy goods from others, for the former brings a certain advantage and the latter inevitable damage."

—Johann Joachim Becher,
German alchemist, 1635–1682

Name a product. Just about any product, and somewhere at some time over the millenium, there has been a trade spat over it or an attempt to protect it. Silk? Byzantium, circa 1000. Grain? England, 1361 and again in 1815. Iron nails? The U.S. in 1789. Bananas? Britain and France beginning in 1900 (and continuing today). Semiconductors? The U.S. and Japan, 1987. Luxury cars? The U.S. and Japan, 1995. Camembert cheese? The U.S. and France, 1997. . . .

Who set the first trade barrier is lost in the mists of history. But it no doubt predates this millennium. Indeed, one joke at the WTO [World Trade Organization] in Geneva is that "on the seventh day, God created a GATT waiver"—the special exemption that allows a country to get around free-trade rules.

Countries block imports in the belief they can protect jobs, of course—conveniently ignoring [the fact] that jobs can also be lost if another country retaliates and blocks imports, too. "It took a long time for governments to realize the danger" of protectionism, says John Jackson, a professor at Georgetown University in Washington and one of the world's foremost experts on foreign trade. "It wasn't until Adam Smith"—the 18th-century proponent of *laissez faire*—"that economists actually showed the damaging effect of this sort of thing on the economy."

One of the world's leading economic powers at the beginning of the millennium, Byzantium, also was one of its leading protectionists.

The Byzantine Empire was adept at bestowing special privileges on allies and favored industries. Just as the U.S. signed the North American Free Trade Agreement granting special trade status to Mexico and Canada, so did the Byzantine empire reach a trade pact with Venice.

Back in 992, Constantinople—the capital of the Byzantine Empire—granted Venetian goods lower tariffs than other foreign merchandise. For centuries after, the Venetians—who became world-class merchants—received special commercial privileges including exemption from a 10% duty paid by other foreign merchants, according to Richard Robinson's "Business History of the World."

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Deals between other trading partners followed, including one as early as 1091 between Mahdiyah, near Tunis, North Africa, and Genoa.

The Byzantines also jealously guarded their lucrative monopoly in purple silk robes, favored by royalty all over Europe. Constantinople, which came to be known as the Purple City, protected its silk industry by organizing craftsmen into guilds and refusing to buy goods made by non-guild members.

There's nothing new about disputes over agriculture, either. In what is now one of the most widely cited forms of protectionism, England in 1361 enacted its first Corn Laws. To keep its own grain cheap, the laws barred exports of it. In subsequent years, the government tried variations, prohibiting the export of grain unless the domestic price was low and blocking import unless the domestic price was high. The point: to make sure there was a stable and sufficient supply of grain from English farmers, eliminating undue dependence on foreign supplies.

PRIMARY & SECONDARY SOURCES (continued) Reading 22

Britain went even further in 1815, passing a law severely restricting grain imports from European neighbors. The result, little surprise, was retaliation: Austria promptly hit back where it hurt, introducing prohibitive tariffs on wool and cotton, damaging British sheep farmers. Sicily raised tariffs on textiles; Sweden raised tariffs on silk, wool, cotton, iron, steel and copper. Feeling the pain, English manufacturers formed the Anti-Corn Law League to lobby against the measure, but it wasn't repealed until 1846.

Meanwhile, across the Atlantic, America was getting in on the act. The colonists, after staging a revolution in part because England was forcing them to buy its goods at artificially high prices, won independence and promptly turned around and raised tariffs themselves. The first U.S. tariff, in 1789, levied a 15% duty on imported nails among other things.

In 1828 came a tariff so reviled in the American South that Southerners named it the Tariff of Abominations. To protect U.S. manufacturers, located largely in the North, Congress raised duties on manufactured goods from abroad—goods on which the agrarian South was very dependent. South Carolina promptly declared the tariff null and void within its borders, throwing the country into crisis. President Andrew Jackson had to threaten to send troops before South Carolina backed down. South Carolina eventually got the government to lower tariffs in 1833.

As a world power a century later, the U.S. played a critical role in setting off one of the biggest global trade disputes. The frenzy of tariff raising that followed World War I reached a culmination in 1930, when Congress passed the [Hawley-Smoot] Act, raising tariffs on farm products and manufactured goods to the highest levels in the nation's history. The act brought retaliation from foreign countries, and world-wide trade suffered a sharp decline. Many economists blame [Hawley-Smoot] for deepening the Great Depression.

Though tariffs and other trade barriers have fallen ever since, protectionism is still extolled on occasion by populist politicians. Among workers who feel threatened by foreign rivals, blocking imports remains a proven vote-getter in countries around the globe, whether a developing nation like Malaysia or a developed one like the U.S. Protectionism, says John Kenneth Galbraith in his book *A History of Economics*, often includes a "patent, sometimes emotional, even tearful, appeal to or for self-interest."

As a result, no one expects trade squabbles to disappear anytime soon. But for free-traders, there's still good news: Try as they might, protectionists constantly are losing ground, as more goods are shipped across more borders all the time. Indeed, global trade rising at 3% annually now exceeds $5.5 trillion a year, a figure greater than the total economic output of every country in the world except the U.S.

Cooper, Helene. "Trading Blocks." *Wall Street Journal*, January 11, 1999

ANALYZING THE READING

1. Why do countries impose trade barriers, such as tariffs?

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2. How did the Byzantine Empire use trading blocks to its advantage?

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3. What was the purpose of Britain's Corn Laws?

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4. What are some historic examples of American trade barriers? Do you think they were beneficial? Why or why not?

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5. At the beginning of the article what does Johann Becher mean when he says that importing goods brings "inevitable damage"?

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