The Development of Free Trade in Europe

Gene A. King, Jr.
Oklahoma Baptist University

Abstract

The political vacuum left by the disintegration of the Western Roman Empire was filled by emergence of many feudal principalities and kingdoms across the European Continent. These feudal entities heavily controlled the economic activities of their subjects and restricted trade on most of the important commodities. Markets were far from free, and the system as a whole was protectionistic with many barriers to market entry and to trade across political boundaries.

During the twelfth, thirteenth and fourteenth centuries different regions in Europe began to embrace more democratic ideals giving merchants and craftsmen more of a voice in governance. This democratic political experimentation was accompanied by a liberalization of economic policies and activities and led to vibrant trading centers in Venice, Genoa, Bruges, Antwerp, and later, Amsterdam. The open economic and trading policies propelled these cities into international trading powerhouses, bringing much wealth to the cities and their inhabitants.

As nation states solidified in Europe, monarchs consolidated their political power establishing more controls and regulations over their internal economies and over international trade. Mercantilism dominated the economic landscape during the sixteenth and seventeenth centuries. Local populations suffered from all kinds of economic restrictions and tax burdens, and trade policy was protectionistic. The earlier experiments with free trade were dissipated by nationalism and frequent wars.

Under this dismal economic regime, a few voices began to advocate for different economic policies in the 1700s. Pierre Le Pesant, sieur de Boisguilbert, François Quesnay, Sallustio Bandini, and Adam Smith were among the voices calling freer domestic and international markets. Their voices had an impact and led to the development of free-trade thinking and subsequent free-trade economic policies in Europe. Their influence continues to be felt in today's global economic experiment, and in the debate on "Free trade as fair trade."

The Development of Free Trade in Europe

I. Introduction

The political economy of Europe and its development have been extensively analyzed, discussed and debated over the decades and centuries. Volumes have been written on the subject by many from all corners. It is, after all, a very fascinating subject – an interesting story with many chapters, numerous characters, and drama. This story is recommended for everyone, from the casual observer to the serious scholar. Most certainly the historical development of the political economy of Europe will continue to be given serious consideration for a long time to come, and, as one of the great stories of all time, it should be.

This paper is a modest attempt to highlight and summarize selected parts of the overall story related to trade and liberal economic expressions in Europe. It will focus attention on the development of trade after the disintegration of the Roman Empire, and on some individuals that advanced free trade and free markets. It is not intended to be a complete treatment of the subject, assuming that is even possible. The hope is that it will shed some light on the subject, generate discussion, and provoke the interested to further study.

II. The Collapse of the Roman Empire & Trade

With the disintegration of the Western Roman Empire in the Fifth Century, there was no unifying political body to maintain control and integrate the different regions of the old empire. Under the Romans, trade for luxury goods had been facilitated by Roman infrastructure (particularly roads) and military control. After the fall of the empire, long distance commerce was greatly curtailed. Safe passage from one area to another was no longer possible. Different regional hegemonies presented barriers to inter-regional trade. The infrastructure that previously had facilitated trade decayed. Industries that had depended on export to areas within the empire suffered greatly or ceased. Trade diminished between the different areas of the former western empire, and an economy based on feudalism emerged (Bridbury, p. 528). The demand for luxury items decreased, and different areas of the former empire returned to focusing on the self sufficiency of their economies.

Unlike the Western Roman Empire, the Eastern Roman Empire (Byzantine) remained in some form for another 900 years. For a portion of that time, the Eastern Roman Empire continued to trade with the Arabs, Chinese, Indians, and Persians, bringing luxury goods (pepper, cardamom, cloves, cinnamon, sandal wood, pearls, rubies, diamonds, emeralds, ivory, herbs, lacquer, cotton, ingredients for dyes, and silk) to its citizens. Eventually it was conquered by the Ottoman Turks in the 1400s A.D.

By the 800s A.D., the Arabs had spread an Islamic empire across the southern Mediterranean and portions of the Iberian Peninsula. This empire conducted a high level of intra-empire trading similar to that of the Romans, and dominated trade throughout the Mediterranean Sea.

As mentioned above, the disintegration of the Western Roman Empire led to the emergence of an economy based on feudalism. The rulers (lords) owned the land in the territory and granted vassals the right to administrate certain portions of the land (Luzzatto, p. 13). Rulers tightly controlled the economic activity of his/her territory, and the produce of the land was taxed. The trade of agricultural products was particularly controlled. Frequently the rulers prohibited the export grain and other important commodities to ensure its supply within their territory. Non-agricultural trades were controlled by guilds. With *charters* and *letters patent*, guilds were granted the rights and privileges to operate and control certain trades and crafts that usually were undertaken in the cities. In essence, all internal markets and external trade were controlled by the rulers and their agents. The system was protectionistic, discouraging free trade and commerce. There were many barriers to entry and to trade across political boundaries. This is not to say there was no trade across regions and between different kingdoms. There was, but it was controlled and restricted by the rulers for the rulers, and was therefore costly. The demand for luxury goods was curtailed, and the trade of those goods limited (Bridbury, p. 532).

III. The Development of Trade in Europe

A. The Champagne Fairs

In the Champagne region of France, Charlemagne established administrative centers in the towns of Troyes and Provins during the eight century. Troyes was an old Roman outpost and a part of the Roman commercial network. Due to their administrative roles and their location at the intersections of old Roman highways, these two towns, along with Lagny, and Bar-sur-Aube, became the sites of an important set of trade fairs that rotated between the four locations (Abu-Lugnod, p. 56). During the eleventh, twelfth, and thirteenth centuries, these trade fairs brought together a gathering of international traders from the following locations: Crete; Cyprus; England; Flanders; Greece; Genoa; Portugal; Spain; Syria; Tuscany; and Venice. Precious and exotic luxury goods from the Levant and Orient were traded with high quality textiles from Flanders (Abu-Lughod, p. 62). There were six fairs annually, each lasting approximately six weeks in length, and they were rotated between the four locations in the Champagne area.

Several factors led to the success of these fairs. First of all, the locations were convenient. They were located in an area that lay between economic regions of northern Europe and Italy, making it a good meeting point for traders from the north and the south. Also, the local counts who governed the area supported the fairs, providing administrative support for the operation of the fairs and protection to the participants of the fairs (Abu-Lughod, p. 59). In addition to the above, the Italians brought their sophisticated trading knowledge and skills with them. These included the exchange of foreign currencies, money lending, commercial paper, letter of credit, financing international transactions, and bookkeeping (Abu-Lughod, p. 69).

The commercial sophistication and the international nature of the products and participants established the Champagne Fairs as an innovation in international commerce of that era. They linked the two European trading regions together that previously had little contact, and they linked northern Europe to eastern civilizations through the Italians. As a result, the Champagne Fairs played an important role in the economic renaissance of northern Europe (Abu-Lughod, p. 56).

Political changes in France after 1274 created barriers to foreign traders seeking to attend the Champagne fairs, making it increasingly difficult and unprofitable to do business. As these barriers arose, the Italians began using larger, more sea-worthy vessels, and they began to trade directly with Bruges, Flanders for the high quality textiles that they used to buy at the fairs (Pirenne, p. 102). The Black Plague, and tension between a unified French kingdom and Flanders, also contributed to the decline of the Champagne Fairs.

B. The Rise of Bruges & Antwerp

Bruges and the surrounding region produced high quality textiles, and also had a tradition of hosting periodic trade fairs which were more regional in nature. In 1134, a strong North Sea storm hit the coast of Flanders in the Lowlands, opening up an inlet from the North Sea that came close to the Flemish city of Bruges. The inlet called the *Zwin*, created a new economic opportunity for Bruges, access to the sea and sea trade (Abu-Lughod, p. 80). Wool was brought by ship from England and Scotland. Textile manufacturing (wool and linen) developed throughout the area, and the city of Bruges became the center for trading textiles and other types of goods (grain, wine, and spices). Merchants from the Baltic Sea, Catalonia, Genoa, and eventually Venice, came to trade in Bruges, setting up permanent trading and banking houses (Pirenne, p. 145). Goods from thirty-four different regions were available for purchase in Bruges, including goods from Jerusalem, Egypt, Morocco, Armenia, and all parts of Europe. Hundreds of ships left port on a daily basis (Morren, p. 2).

In addition to being a commercial center for goods, Bruges was also a commercial financial center. One of the first stock exchanges was developed in Bruges by commodity traders who gathered at the house of Van der Burse. The merchants of Bruges also developed one of Europe's most sophisticated money markets.

As a result of the international trade and financial commerce, Bruges was a wealthy, cosmopolitan city (with many foreign nationals residing in the city) that was equal to or better than Venice (Abu-Lughod, p. 145).

By the late 1400s the *Zwin* had silted up impeding sea trade for Bruges. The foreign trading houses moved their operations to the Flemish city of Antwerp. Antwerp was located on the Scheldt River and had a bigger harbor. The shift brought tremendous international trading activities and economic growth to Antwerp. It became the second largest city north of the Alps by 1560 A.D. and was the center of international trade in Europe.

Antwerp enjoyed this position until the advent of the Protestant Reformation. Breaking with the Catholic Church, Antwerp became a target of Spanish forces and was sacked in 1576. In 1585, the Protestant citizens were exiled from the city and trade along the Scheldt River was interrupt by hostile warring forces (the Spanish and the Revolting Protestant United Provinces (of the Lowlands). The situation resulted in the migration of merchants, intellectuals, and others who were fleeing the Spanish religious intolerance. Much of the commercial and trading expertise, and intellectual and financial capital that had propelled Bruges and Antwerp ended up in Amsterdam, making it the new center for trade at the dawning of the seventeenth century.

C. The Northern Italian City-States

During the twelfth, thirteenth, fourteenth and fifteenth centuries, the Northern Italian city-states of Venice, Genoa, Florence and Milan achieved a high degree of commerce and trade. Their achievements in trade and commerce were based upon democratic political processes that enfranchised artisans, traders, and merchants (De Long, p. 674). These cities' democratic social orders, which developed out of Christian ideals and a focus on commerce, led to innovative commercial enterprises and organizations, and established them as leading trading centers in the Mediterranean (Stark, p. 106). Venice's association with the Byzantine Empire led to it controlling trade between Europe and the Levant, in the eastern portion of the

Mediterranean Sea. The merchants of Venice became very wealthy through their trade in spices, silk, perfume, iron, wood, salt, and other goods. Genoa developed to become a major trading center and the rival of Venice. Genoese merchants made fortunes trading textiles, pearls, and other goods. As a result of their collaboration with the north European powers during the Crusades, these Italian city-states began trading with northern Europe (Abu-Lughod, p. 47).

To help facilitate their trading ventures, both the Venetians and the Genoese set up banking houses in the key trading centers where they did business. These banking houses were outpost branches for the main banking/trading group back in Venice, Genoa, Florence and Milan. The main group and these outposts formed first international banking system, and facilitated buying goods, exchanging currencies, settling accounts between trading parties. The Italian banking houses established branches in Spain, Portugal, Bruges, Antwerp, and London, and facilitated a great deal of international trade in these locations. The expertise, capital, and enterprise of these Northern Italian city-states acted as a catalyst for trade in other regions of Europe and beyond.

D. The Hanseatic League

In the later half of the 13th Century, cities in northern Germany formed guilds called *Hanse*. These guilds were established promote trade with other cities and areas, and frequently established trading posts in different locations (such as the northern Slavic areas, the coast along the southern Baltic Sea, and in Scandinavia) to facilitate trade. In 1356, a number of the cities formed an alliance for cooperation in trade and for mutual protection. This alliance known as the *Hanseatic League* included the cities of Lübeck, Hamburg, Cologne, Bremen, Danzig, Riga, Brandenberg, Dortmund, Stockholm and about 70 other cities. It had trading posts in other important trading cities such as London, Bruges, Antwerp, and Newcastle. The league dominated trade in the Baltic Sea area, and to some degree, in the North Sea area as well. At one point, it achieved a virtual monopoly on trade with Scandinavia. The alliance traded in timber, grains, furs, wool, textiles, etc (Hunt, p. 165). The rise of Dutch trading strength, along with political changes in Germany, Scandinavia, and Prussia, weakened the strength and effectiveness of the league by the end of the fifteenth century.

E. Migration of Merchants & Intellectuals from Spain

In 1492 A.D., Queen Isabella and King Ferdinand II of Spain issued the Alhambra Decree which mandated the expulsion of Jews from Spain. Many of these Jews had enjoyed good standing in the Spanish communities and were trusted advisors. They were well educated, and skillful at trade, commerce, and finance. They also had commercial contacts with relatives in the Levant and in Muslim lands. Some of these brought their commercial skills and intellectual talent to Lowlands of northeastern Europe (Antwerp and Amsterdam) which belonged to Spain at the time. In the latter half of the sixteenth, Crypto-Jews and New Christians (Spanish Jews who had converted to Christianity) also migrated from Spain to the Lowlands and other locations such as the northern Italian city-states (Alpert, pp. 52, 53, 58). This intellectual capital acted as a catalyst, further developing commerce and facilitating international trade in Europe.

F. The Age of Exploration

The time from the 15th Century to the 17th Century was a period exploration for European nation/states. The Renaissance had led to advancements in navigational instruments, advancements in map making, advancements in shipbuilding, and to a desire to explore and search out valuable goods (Stark, p. 50). The Portuguese initially led the way, establishing new trade routes with the East Indies and Spice Islands. They set up trading outposts to serve and protect their interests in these lands, and they managed to establish trading locations in Africa, Indian subcontinent, the Indonesian archipelago, the Malayan Peninsula, and China. They were also the first to establish trade with Japan. The main goods for which they traded were spices such as mace, cloves, nutmeg, cinnamon, and pepper. This commercial activity was known as the *Spice Trade*.

From its African outposts, the Portuguese imported gold, and after a Papal Bull from Pope Nicholas V in 1452, they began trading in human slaves. The Papal Bull granted the Portuguese king permission to enslave Muslims and others who were not of the Roman Catholic (Christian) faith. This trade became known as the *Slave Trade*. It involved the Portuguese (and other Europeans) buying or capturing African slaves from West Africa and Central Africa. The Portuguese initially supplied plantations in the Madeira Islands with slaves from Africa, and later they began shipping them to the New World to work on plantations there. These slaves were transported under unusually cruel conditions (many perished during the voyage) by slave ships to the New World where the sold to plantation owners for labor. By the year 1540, it is estimated that 10,000 slaves were being brought to the New World each year. The slaves were used on plantations to produce, sugar, molasses, rum, tobacco, and other products, which were supplied to Europe. Over the course of 400 years, it is estimated that any where from 9 to12 million Africans were brought to the New World as slaves through this cruel trading system (Lovejoy, p. 394).

G. The Dutch

As mentioned previously, the revolt of the Protestant Lowlands against Catholic Hapsburg Empire and Spain in 1568, resulted in armed struggle that displaced people and disrupted commerce. Many Protestants in the Flemish Lowlands migrated to Amsterdam, along with other groups seeking refuge from the intolerant Spanish rule and Spanish troops. It also attracted people from other parts of Europe seeking religious and intellectual freedom. Foreign merchants, international financiers, intellectuals, French Huguenots, and refugees from the Spanish Inquisition, were among the different groups of people that re-settled in United Provinces and Amsterdam. These different groups brought with them trade expertise, trade connections, intellectual capital, and financial capital.

At this point several factors thrust Amsterdam into becoming the new center for international trade in Europe. The talents of the new immigrants were combined with a location that facilitated north/south and east/west trade in Europe. Financial institutions were set up to facilitate commerce and trade. The merchant classes gained more political rights and more liberal trade policies were embraced, opening the economy to the enterprising. The Protestant Christian world view created a work ethic that brought dignity to hard work and to the common person, and the Protestant Reformation brought personal freedoms to society that stimulated the social fabric, including economic enterprise (Weber, p. 366). In 1588 A.D., the Spanish Armada was destroyed by Dutch and English naval forces and by bad weather, leaving the Dutch as masters of the seas. These factors positioned the Dutch to become the new, dominant international, trading force.

As the wealth of the Dutch merchants increased, they sought new investment opportunities through trade with Asia. In 1602 the Dutch government established the *Dutch East Indies Company* (VOC), giving it a monopoly to conduct trade and establish colonies in Asia. Investors bought shares of stock in the newly formed company, making it one of the first companies to issue stock. Setting up offices in Ambon (present day Indonesia) and other Asian locations, it is considered to have been the first multinational corporation to exist as well. The VOC brought New World silver from Holland and traded it for Indian and Chinese textiles and for other goods. These were traded for spices in the Spice Islands, which were shipped back to Europe where they were sold at handsome profits. In its heyday (1669), the VOC had 50,000 employees and over 190 ships (merchant and warships). The VOC maintained outposts in China, Persia, Bengal, Malacca, Siam, Japan, and Horn of Africa. The Dutch eventually displaced the Portuguese from its locations in the Spice Islands, becoming the dominant force in the *Spice Trade* (they replaced the Portuguese in the *Slave Trade* as well).

All these events, caused the economy of Holland and of the United Provinces grew tremendously, and Amsterdam flourished commercially and culturally. Eventually, Amsterdam became the most important trading center in Europe, and the central commodities market for Europe. The explosion of economic growth made Holland enormously wealthy. The Dutch dominated the oceans and world trade during the seventeenth century, a period of time known as the Dutch Golden Age.

H. Trade & the British Empire

The Dutch Golden age was supplanted by the rise of the British Empire. Britain became the dominant international trading nation during the 1700s and 1800s, maintaining colonies and territorial possessions around the world. There were a number of factors that led to this change in leading trade status.

In the 1650s and 1660s Britain passed a series of acts in the parliament designed to be protectionist measures (influenced by the mercantilist ideas of the day) that would boost British commerce and shipping. They were known as the Navigation Acts and prohibited goods being exported and import from being carried on ships that were not British ships. The acts also prohibited goods traded with the British colonies from being carried by anything other than British ships. This had a big impact upon Dutch trade, severely limiting Dutch merchants' ability to do business. The situation led to a series of wars with the Dutch (the Anglo-Dutch Wars) which would weaken the Dutch's ability to dominate international trade due to British naval victories and to British privateers preying on Dutch merchant ships. As a result of these acts and the defeat of the French and Spanish navies in 1806 at the Battle of Trafalgar, the British merchant fleet would greatly expand and later become the largest and most powerful in the world. This greatly assisted the expansion of British trade on the international scene.

In 1688 British parliamentarians and Dutch Stadholder William III of Orange-Nassau conspired to overthrow the Catholic King of England, James II. Known as the *Glorious Revolution*, William III, a Protestant and defender of the Protestant cause, invaded England with a mercenary army and won the backing of the parliamentarians and Protestant nobles. James II fled from England, and William III and his wife Mary were crowned sovereigns of England. This led to the migration of traders and financiers from the Netherlands to London, bringing a significant portion of the commercial and trading expertise to England.

Britain's colonial empire expanded during the seventeenth, eighteenth, and nineteenth centuries. It would eventually become the largest empire the world has ever seen with Britain ruling over a quarter of the world's population. Trade with its colonies expanded Britain's international trading activities, bringing coffee, tea, sugar, tobacco, cocoa, and cotton for the colonies to Britain. These raw goods would be processed and used to manufacture products in Britain, which were subsequently exported to the European Continent and the colonies.

A key to expanding the international trade of Britain was the *British East India Company*. Established in 1600 as joint-stock company by traders and investors in London, the company received a royal charter giving it exclusive rights to develop trade with the East Indies. It was one the first multinational corporation and was responsible for the territorial annexation of Malaya, Singapore, Hong Kong, and much of the Indian subcontinent which became very important to the British economy. The above events and factors catapulted Britain to become the leading trading nation in the world. Britain would continue to dominate international trade until WWI.

IV. Mercantilism and Trade

During the sixteenth and seventeenth centuries, influential European politicians and government advisors viewed the global economic system as a *zero sum game* with the world's wealth being a fixed amount that is constantly redistributed by the economic activities of individuals and nations. If a nation wanted to improve its economic status, it had to accumulate more wealth (measured by gold bullion) at the expense of other nations. The mechanism for accumulating more wealth was to insure that more was being exported from a country than that which was being imported. Running a trade surplus would build a nation's wealth. In order the accomplished this positive trade balance, proponents of this economic viewpoint advocated significant government involvement in regulating trade. They saw the government's role as maintaining policies that would encourage exports and discourage imports. This approach to the economy became known as *Mercantilism*.

As modern nation-states began to take shape during this time period, many adopted mercantilism as their economic philosophy. It was during this same time period that these same nations began to establish colonies and make greater use of metallic currencies. This time period saw a large increase in international trade due to accounting and transportation advances. A good portion of that trade involved exploiting economic raw materials from colonies, bringing them back to the homeland to be manufactured into finished goods, and then exporting those goods to the growing urban centers of other European nations. Two of the key proponents of mercantilism were Thomas Mun of England and Jean-Baptiste Colbert of France.

Mercantilism became the dominant economic philosophy of the 17th Century and part of the 18th Century. It turned international trade into an economic competition among nation-states, resulting in numerous military conflicts as countries competed for markets and gold bullion in their national treasuries. Governments highly regulated imports (and exports) imposing high tariffs. Protectionism ruled the day. Some of these same ideas and policies continued to make their way into government actions of the nineteenth and twentieth centuries.

V. Changing Philosophies on Trade, Economics, & Free Markets

In spite of the considerable amount of internal and external trade that developed in and among the European powers between the eleventh and seventeenth centuries, very little of it could be characterized as "free trade." Internal and external markets were highly controlled and regulated throughout Europe with a few exceptions (Holland). The poor were particularly burdened by the politically imposed economic constraints. Some areas of Europe (particularly France) suffered acute economic malaise brought on by the ruling economic philosophies. Against this backdrop, there emerged a number of "Voices crying in the wilderness" during the late seventeenth and eighteenth centuries, which would offer an alternative – *free trade*. This section highlights some of those voices.

Boisguilbert (1646-1714)

Pierre Le Pesant, sieur de Boisguilbert was born the second son a nobleman in Rouen, France in 1646. As an adolescent, he studied in Paris at the *Petites Écoles* of *Port-Royal*, founded in 1637 by the Catholic reformer and Jansenist, Jean Duvergier de Hauronne, (Faccarello, p. 3). After the Petities Écoles was closed by the government in 1660, Boisguilbert continued studying in Paris, obtaining the law grade of advocate. He tried a literary career, but met with little success. After holding public office in Rouen for a while, he married a rich widow with land and applied himself to "commerce and husbandry" at which he was considered successful (Christensen, p. 104).

Later on in his life, he held a number of public administrative posts, including that of Attorney General of the Court of Aides in Normandy and that of President in the Presidial Seat and Lieutenant General of Rouen . Serving in these latter capacities, Boisguilbert had responsibility of upholding the law and economic justice, health and sanitation, and of public morality and censorship (McDonald, p. 402). Serving in public office brought Boiguilbert into contact with the common people and their problems. As a result of this, he became interested in subjects related to France's economy and public policy, and he carefully observed and studied the progressively dismal economic and social conditions in France to better understand them and their causes. In a letter to the French king in 1693, Boisguilbert's contemporary, François Fénelon, related the following economic conditions:

> *Your people…are dying of hunger. Cultivation of the lands is almost abandoned. The towns and the countryside are depopulating. All the trades languish and no longer nourish the workers. All commerce is destroyed…The whole of France is no more than a great poorhouse, desolate, and without provision (McDonald, p. 402).*

Another contemporary, Michel le Vassor, described the situation in 1695 with similar language:

> *The countryside is almost deserted. An infinity of people are dead of hunger, wretchedness, and common maladies. The villages which we have seen fair and populated are destroyed and abandoned: the greater part of the laborers and artisans are reduced to beggary (McDonald, p. 403).*

During the last 20 years of his life, Boisguilbert devoted himself to explaining the reasons for France's serious economic conditions and offering the remedies to those conditions (McDonald, p. 403). He tried appealing to the French throne and its ministers with his ideas on how to solve the problems. His appeals and his ideas on economics and policy were not well received. His efforts to effect policy change through consultation failed. But, Boisguilbert did not give up. He wrote a number of books and pamphlets expressing his ideas on these subjects. Some were first published anonymously and later republished under his name. A couple of his books were revised and published in several editions. His more important works included *Détail de la France*, *Traité des Grains*, *Dissertation de la Nature des Richesses*, and *Factum de la France* which was published in 1706. Boisguilbert's writings got him in trouble with the government, and he was briefly exiled in 1707 as a result (Christensen, p. 105). His overall objectives through his writings were to promote fiscal reform in France and bring an end the merchantilistic economic policies of the day (Benítez-Rochel p. 232),

At *Petites Écoles*, Boisguilbert was influenced by French Jansenist theologians (who had been influenced by Saint Augustine's w*ritings)* and by their views of human nature. Boisguilbert and the Jansenists believed that due to mankind's fallen human nature and Creation's fall, people had to work arduously and cooperate with one another (specialization) to be able to make a living. Boisguilbert maintained that this economic inter-dependence applied to nations as well (Faccarello, pp. 64-5). Boiguilbert also believed that each person sought his own interests and was ruled by that *self-interest* (Benítez-Rochel p. 241).

> *All the commerce of the land, both wholesale and retail, and even agriculture, are governed by nothing other than the self-interest of the entrepreneurs, who have never considered service nor obligating those with whom they contract through their commerce;... (Factum de la France, p. 748)*

This corrupted state of human nature and its impact on human behavior and Creation meant that individual incentive was necessary to achieve economic productivity. Individual incentive could be provided by private ownership of property and by not restricting the economic enterprise of individuals with taxes and regulations. He believed that human societies would naturally tend toward economic productivity if they were left free from interference.

> *…that enlightened self-interest and the lust for gain secures the reciprocal utility of an exchange and mutual want satisfaction on which both the harmony of the world and the maintenance of the state relies, it was an easy step for Boisguilbert to link the achievement of this result to a situation of unrestrained competition.* (Groenewegen, 2002, p. 217)

Boisguilbert maintained that if the poor masses were freed from the burdensome economic policies of the day restricting commerce and trade, they would naturally be more economically productive. They would be able to afford more, and would consume more, thus stimulating France's economic growth. Boisguilbert advocated removing the states restrictions on grain sales and prices, allowing the market to set the prices, and allowing grain to be transported and sold wherever it was demanded. He believed that France's ordinary citizens were overburdened with numerous taxes hurting the production and consumption of goods.

> *In a word, the plague, war and famine or all the curses of God in the greatest wrath of heaven, of in their ravages the most barbarous conquerors never produced more than a twentieth of the ills which this tax has caused …in the kingdom.* (Boisguilbert, 1704; Faccarello, p. 3)

Through his writings, Boisguilbert articulated this economic liberalism in which the state did very little to interfere with the natural economic balance. It was referred to by Boisguilbert and his contemporaries as *laissez faire*, which is translated as "let do" or "let make" in English. The idea was commerce and markets without restrictions and regulations. People would be free to produce, consume, and make economic decisions as they see fit. They could trade freely domestically and internationally.

> *…if he and his ilk {i.e. the ministers and the men in charge of the state} stopped interfering in it {in trade} then everything would go perfectly well because the desire to earn is so natural that no motive other personal self-interest is needed to induce action;* (Boisguilbert, 1705; Faccarello, p. 02)

Boisguilbert was an early user of the term *laissez faire* and he was the first to use the term in an economic sense (McDonald, p. 413). His use of the term precedes Gournay and the Physiocrats use of the term, though the Protestant merchant Thomas Legendre (who collaborated with Boisguilbert) is attributed to have been the first to speak a similar term, *laissez-nous faire* ("Let us do"), in response to an inquiry from minister Colbert (Faccarello, p. 91). Legendre's communication with Colbert probably inspired Boisguilbert to use the term as an expression of the idea that he and Legrendre shared regarding free trading and free markets.

Through his writings, Boisguilbert introduced and described a number of significant economic concepts that made up a whole systematic economic philosophy – something that had not been done before. Many of these concepts are still a part of political economic thinking today and include the following: monetary flow & velocity; the concept of an economic circuit; mass purchasing power and consumption as the motor of the economic system; the interdependence of consumption, income, and employment; the key role of agriculture; and economic incentives and disincentives (Benítez-Rochel pp. 233-4).

The significance of Boisguilbert's work is its influence on other economic thinkers and writers who followed him. His economic thinking was surprisingly modern, sophisticated and unified. He clearly understood the benefits of the "Liberty of commerce," which equates with present notions of free markets and free trade. Among the many who were influenced by his work, are the following: Richard Cantillon, François Quesnay, Mirabeau, Pierre Samuel du Pont de Nemours, Pietro Verri, and perhaps Adam Smith (Groenewegen, 2001, p. 40). Du Pont made the following statement about Boisguilbert's work:

> *This work … is… singularly precious on account of the sagacity with which the author understood all that of which the world at this time was ignorant: The necessity to respect the advances of useful labor, and the advantages of liberty of commerce.* (Groenewegen, 2001, p. 33)

Marx and others consider him to one of the founders of classical political economy, together with William Petty.

Physiocrats

Boiguilbert preceded a group of economic thinkers in France called the *Physiocrats*. The Physiocrats emerged as a group of economic thinkers in France, forming the first school of economic thought which flourished from the last 1750's through 1770. One of the most prominent leaders of the Physiocrats was François Quesnay (1694-1774), the personal physician of King Louis XV. In 1759, François Quesnay published *Tableau Ėconomique*, articulating the Physiocrats' economic philosophies of *pruduit net*, which is net revenue or surplus, and of circular flow. The Physiocrats believed that the wealth of a nation was not determined by the amount of bullion in the national treasury (which ultimately belong to the ruling monarch), but by the agricultural productivity of the nation. Like Boisguilbert, the

Physiocrats believed that productivity required the right economic incentives and economic freedoms (*laissez faire*). They also advocated the value of free trade in grains, believing that it would produce a more stable source of income for the French than would manufactured goods. At the time, inter-regional trade of grain was restricted within France and the export of grain outside of France was prohibited. These policies were put in place to ensure an adequate supply of cheap grain, but the net effect was to create a disincentive for grain farmers, which frequently led to a paucity of grain and starvation. The Physiocrats argued that an adequate supply of grain and stable grain prices could be better ensured by their policies of free trade (Persson, p. 2).

Another prominent Physiocrat was Pierre Samuel du Pont de Nemours (1739-1817). He wrote *Pysiocracy* in 1767 which introduce the term to the public. Du Pont and the other Physiocrats advocated the removal of restrictions on internal trade, the free movement of labor, the abolition of state sponsored monopolies and trading privileges, and the dismantling of the guild system, all of which advanced free trade and free market thought. Du Pont emigrated to the U.S.A. in 1799. His son went on to establish the chemical company DuPont, one of the largest and most successful American companies.

The Physiocrats influence was short lived in France, but their writings were translated into other European languages and their economic ideas were studied and embraced in Italy, Sweden and Poland (Persson, p. 8).

Sallustio Bandini

In 1737, a Tuscan priest (Roman Catholic), named Sallustio Bandini, wrote *Discurso sopra la Maremma di Siena*, which advocated abolishing restrictions on the export of grain. Bandini had been influenced by reading Boisbguilbert, and as in France, interregional commerce among the Italian states was restricted and controlled out of concern for domestic self sufficiency in vital goods like grains (Persson, p. 3). The policy was called “provisioning” or “policy of supply”.

The Tuscan region of Maremma was suited for grain production but was a chronically poor region. Bandini identified the source of the poverty as being the city-state controls banning the export of grain and the artificially low prices set by the government. In the above mentioned work, Bandini argued that Maremma grain producers should be allowed to produce and export grain at open market prices. These market freedoms would provide the necessary incentives needed to make the region more productive and to lift it out of poverty.

In his discourse, Bandini made theological justifications for his appeal to free trade. He wrote that different regions were blessed with different natural endowments by God, which made the regions better at producing different goods. All regions could mutually benefit from the others’ endowments by trading with one another. He also appealed to the Christian ethic of giving to those in need which ran contrary the “provisioning” philosophy.

Adam Smith and *The Wealth of Nations*

Born in 1723, Adam Smith was a Scottish moral philosopher and political economist, and he was one of the prominent thinkers belonging to the intellectual movement known as the *Scottish Enlightenment*. From 1764 to 1766 Smith toured the European Continent (France and Switzerland) as the tutor for the Duke of Buccleuch. During these travels, Smith was able to meet leading French thinkers and collect information on the different economic histories and economies of Europe. In particular he met François Quesnay, the leader of the Physiocrats, a man whose work Smith admired.

Upon returning to Scotland, Smith completed writing what was to become his most noted work, An Inquiry into the Nature and Causes of the Wealth of Nations, published in 1776. His book was an organized and comprehensive attacked on the mercantilist notions and ideas that had dominated government policies and practices in the prior decades and century. It specifically made a strong case for free trade (domestically and internationally), capitalism, and the division of labor (specialization) as the proper foundation for a good economy, and has become the preeminent intellectual justification for free market economies. Smith also wrote on the self interest of human beings providing economic incentive and an "invisible hand" that guides market prices to their "natural price" level for the good of society. The work is considered by many to be the most influential book on economics ever written, and Adam Smith is considered to be the father of modern economics.

Adam Smith's work greatly impacted people's thinking on trade and commerce in favor of free trade and free markets since it was first published, and it continues to have impact on the economic debate today.

VI. The Impact of Free Trade Thinkers on 19th Century Europe

Under the old regimes, the policies of *provisioning* or *supply* meant the regulation of grain production and grain markets. As mentioned above, grain was banned from being exported, but so were other products. The eighteenth and early nineteenth centuries witnessed exports restrictions on wool, coal, timber, firewood, rags, and silk (Kindleberger, p. 24). In addition to these export restrictions, the Mercantilist policies created import barriers to protect nascent domestic industries. The combined result of these two policy directions was to strangle commerce and create deteriorating economic conditions. But, as noted above, there were numerous voices calling for change in favor of freer markets, trade, and commerce. And, these voices eventually had an impact.

The first impact happened in Tuscany in 1737. Grand Duke Francis read Bandini's *Discurso sopra la Maremma di Siena* and decided to lift the *provisioning* ban on exports of grain from the Maremma region of Sienna. In 1764, under the strain of famine, Tuscany begin to permit the importation of grain as well (Kindleberger, p. 23). Through the 1770s, the Tuscan government allowed the importing and exporting of grains from different regions. This was the first experiment with the liberal economic policies after the reign of the *mercantilist* policies, providing a milestone in the history of the development of free trade.

In 1763 and 1764, the policy of grain provisioning in France was reversed, and almost a complete liberalization of the internal grain trade (and a partial liberation of external grain trade) was put into effect. At this point, the French Secretary of State for Foreign Affairs, Comte de Vergennes was advancing economic policy ideas that thoroughly reflected the influence of the Physiocrats. These policies ideas were articulated as follows:

> *The more things a nation produces which it does not require for its own use, the more it should desire to export them. 2. The cultivation of the soil is the solid foundation of prosperity. The exportation of natural products should be encouraged, so as to develop the cultivation. 3. The interest of the cultivators of the soil should always be preferred to that of manufacturers. 4. It is a mistake to aim at making all nations produce the*

> *same articles. It is also wise to encourage competition with foreign nations, because it stimulates your own production. 5. Manufactures should be protected, the price of which is 10 per cent above contraband prices. 6. The interest of the consumer should be preferred to that of the manufacturer and the merchant.* (Browning, pp. 357-8)

In 1786, France and Britain entered into a treaty of commerce liberalizing trade between the two nations. This treaty provided most favored nation trade status to both parties and dealt with a number of products traded between the two, including French wine and British textiles. Unfortunately, the advances in free trade that were beginning to take root in France were interrupted be the French Revolution in 1789. The difficulties of that time and Napoleon's wars, ushered in a negative public sentiment toward free trade, leading to the reestablishment of more protectionist policies, in France, Britain, and elsewhere.

The debate over the benefits of free trade versus the need for protectionism intensified during the early part of the nineteenth century. In Britain, vested interest groups sought to protect their enterprises from foreign competition and assure access to inputs via tariffs and export restrictions. In 1815, the British legislature passed the Corn Law, restricting grain imports. The export of machinery and skilled workers was also prohibited during this time. But during 1820s through the 1840s, a number of voices in Britain, stimulated by Adam Smith's *Wealth of Nations* and David Ricardo's Principles of Political Economy and Taxation, began to promote economic policy changes in favor of free trade. Those voices included Thomas Tooke, William Huskisson, Robert Peel, Richard Cobden, John Russell and James Wilson.

In 1820, Tooke presented the *Merchant's Petition* to the House of Commons demanding free trade and the end of tariffs protecting domestic producers. Cobden, a merchant from Manchester, began to write against the Corn Law. He observed that the Corn Law resulted in higher grain prices for the British workers causing British enterprises to pay higher wages to British workers as a result. British merchants wanted to liberalize external trade to bring grain prices more into line with those on the European continent. As President of the Board of Trade in Britain, Huskisson promoted free trade policies from 1823 to 1827 during Lord Liverpool's time as Prime Minister. During the 1830s, free trade economic liberalists were said to "burst forth as a crusading passion," winning over political sentiments of the day (Kindelberger, p. 31). Wilson was another voice from Manchester. He established *The Economist* in 1843 as a means to promote free trade policies. By 1846, England passed a law that phased in the dismantling of tariffs on imported wheat.

As free trade ideas gained more traction among thinkers and policy makers, other European nations began to implement free trade economic policies. In France, a number of voices continued to champion the cause of free trade that had begun with their compatriots in the last century. These voices included Bastiat and Chevalier. By 1828, a commission of enquiry into the effect of import duties on British iron, indicated that French industries were having to pay fifty million francs yearly in additional costs. The French government responded by reducing tariffs on coal, iron, machinery, and horses (Kindelberger, p. 37). During the 1850s, various French government proposals were advanced to reduce trade barriers, including classifying 241 items as duty free, reducing tariffs on 19 merchandise categories, removing all quotas, and setting a tariff limit of thirty percent (Kindelberger, p. 39). Finally, in 1860, the Cobden-Chevalier Commercial Treaty was signed between France and Britain, reducing import tariffs between the two nations. The result was a doubling of exports between the two countries and significant industrial growth in France, which helped to greatly advance the development France's industrial revolution (Dunham, p. 337).

As the French and British moved to liberalize external trade, other European nations also debated the merits of free trade and began to enact economic policies in that direction. Among the nations that began to move toward free trade were Belgium, the Netherlands, Norway, Piedmont, Portugal, Spain, and Sweden. The 1860 Cobden-Chevalier Commercial Treaty precipitated more free trade policies and agreements. Reciprocal trade agreements were negotiated by Britain, France, Germany, and Italy (Kindelberger, p. 40). The economies of western European nations began to expand, assisted by industrialization and this liberalization of trade, and the nineteenth century free trade movement in western Europe reached its peak in 1873.

VII. Protectionism and Tariff Policies Return

Declining transportation costs and improved production methods brought grain prices down in the mid 1870s. As cheap grain poured into Western European nations, the domestic producers suffered and people began to question the wisdom of lower import tariffs for grain and free trade policies. Germany precipitated a round of protectionist actions by passing the Tariff Act of 1879, and soon after other nations followed suit. Colonial trade preferences by Britain and the cancellation of trade treaties in 1898 with France and Germany, fanned the flames of protectionism. Tariff actions and counter-actions by the various European powers trended toward escalating protectionism and political friction. Increasingly, European powers scrambled for colonies to support their domestic economies and to assist their economic nationalism. Being highly industrialized and efficient producers at this point, Britain and Germany competed for foreign markets leading to tensions betweens the two nations. WWI disrupted the economies of the world and international trade, and left a great deal of animosity between Germany and the rest of the nations in Europe. At the end of the war, protectionist sentiments prevailed over free trade sentiments, and again a number of nations raised tariffs on imports, including Britain and France. Between the 1929 and 1934, World trade, crippled by increasing trade barriers, declined by sixty-six percent. The global economic depression the occurred in the 1930s was deepened by the curtailment of international trade, and this further fed a sense of economic nationalism. Demand for goods was further reduced by the depressed, global, economic situation, further shrinking markets for internationally traded goods. As WWII erupted in 1939, the little international trade that remained, was (again) interrupted by dynamics of a world at war (State Department of the U.S.).

VIII. Observations and Conclusions

There are number of points that surface from this survey of free trade in Europe. One is the importance of French thinkers to development and articulation of liberal economic thought. Boisguilbert and his countrymen brought serious focus upon economic questions and ideas in an unprecedented way. They raised the level of discussion and unified economic concepts into a whole system. Boisguilbert's own writings preceded Adam Smith's *The Wealth of Nations* by more than seventy years. Given Smith's continental visit, it would be hard to believe that these French thinkers did not have a significant impact upon Smith's own political economic thought.

Another point is the detrimental impact that profuse state regulations under the mercantilists had on the economies of Europe. France's case is a clear illustration of the severe economic misery perpetrated by the extreme regulation of markets. One is tempted to think that had Louis XIV's ministers implemented Boisguilbert's economic policy recommendations at the beginning of the eighteenth century, it might have changed the way the French Revolution unfolded some eighty years later.

In addition, the provisioning policies restricting exports, that were prevalent throughout Europe during the seventeenth and eighteenth centuries, actually put societies at more economic risk instead of the intended effect of ensuring the availability of important goods. They had a negative effect on food security and hampered industrial growth by restricting the export of manufacturing inputs.

After percolating through the vigorous European discourse on political economy, liberal economic policies of the free market advocates began to have some success at changing the economic policies of many European nations, but it was incremental and took a number of years. In the mid 1700s, the export restrictions on grains and on other key goods began to be lifted, starting in Italy. It took almost another hundred years to convince European governments abolished import restrictions and lower tariffs. By 1860, one hundred and fifty years after Boisguilbert's presented his ideas and recommendations, free trade policies were making significant gains across Europe and having a positive effect on economic growth.

Finally, it is fascinating to study the development of economic thought and policies in Europe. Since their arrival, free trade and free market advocates have contended with the forces of regulation and protectionism. Revolutions and wars seemed to favor the protectionists, and regress the policies of free trade. When free trade was able to prevail for a short period in the nineteenth century, it brought broad economic growth and it limited the protection of private interests, providing more competition and leveling the playing field. In this sense, one could make the case that free trade has been fairer than the mercantilist and protectionist policies with which it has had to contend.

The debate between the two camps continues in these times. Not long ago, the French rejected the initial EU Constitution put forth. They claimed that it contained policy ideals that were based too much upon the English model for their liking. That is to say that it was too free market oriented. One has to wonder how aware the contemporary French citizen is of the contributions that the French have made to free market, economic thought. The recent troubles in the financial markets will add fuel to the debate. The Europeans are already making the claim that the American system (free market oriented) has been discredited. Most likely, this debate will need to be re-visited in a future forum a few years down the road, after the dust settles.

References

Abu-Lughod, J. L. (1989). *Before European Hegemony: The World System A.D. 1250-1350*. New York: Oxford University Press.

Alpert, M. (2001). *Crypto-Judaism and the Spanish Inquisition*. New York: Palgrave.

Benítez-Rochel, J. J., Robles-Teigeiro, L. (2003). The Foundations of the Tableau Économique in Boisguilbert and Cantillon. *The European Journal History of Economic Thought*. 10(2), 231-248.

Boisguilbert, P. P. (1707). *Factum de la France*. France.

Bridbury, A. R. (1969). The Dark Ages. *The Economic History Review*, 22(3), 526-537.

Browning, O. T (1885). The Treaty of Commerce between England and France in 1786. *Transactions of the Royal Historical Society*, New Series, 2, 349-364.

Christensen, P. P. (2003). Epicurean and Stoic Sources for Boisguilbert's Physiological and Hippocratic Vision of Nature and Economics. *History of Political Economy*, 35(Suppl 1), 101-128. Duke University Press.

De Long, J. B., Shleifer, A. (1993). Princes and Merchants: European City Growth before the Industrial Revolution. *Journal of Law and Economics*, 36(2), 671-702.

Dunham, A. L. (1927). The Influence of the Anglo-French Treaty of Commerce of 1860 on the Development of the Iron Industry in France. *The Quarterly Journal of Economics*, 41(2), 317-337.

Faccarello, G. (1999). *The Foundations of Laissez-Faire: The Economics of Pierre de Boisguilbert*. London: Routledge.

Groenewegen, P. P. (2001). Boisguilbert's Theory of Money, Circular Flow, Effective Demand and Distribution of Wealth. *History of Economics Review*, 33, 33-43.

Groenewegen, P. P. (2002). *Eighteenth Century Economics: Turgot, Beccaria and Smith and Their Contemporaries*. New York: Routledge.

Hunt, E. S., Murray, J. M. (1999). *A History of Business in Medieval Europe, 1200-1550*. Cambridge: The Cambridge University Press.

Kindleberger, C. P. (1975). The Rise of Free Trade in Western Europe, 1820-1875. *The Journal of Economic History*, 35(1), 20-55.

Lovejoy, P. E. (1989). The Impact of the Atlantic Slave Trade on Africa: A Review of the Literature. *The Journal of African History*, 30(3), 365-394.

Luzzatto, G. (1961). *An Economic History of Italy: From the Fall of the Roman Empire to the Beginning of the Sixteenth Century*. New York: Barnes & Noble

MacDonald, S. L. (1954). Boisguilbert: A Neglected Precursor or Aggregate Demand Theorists. *The Quarterly Journal of Economics*, 68(3), 401-414.

Morren, P. (1984). Bruges; fair city of Flanders; a Medieval centre of commerce. *UNESCO Courier*.

Pirenne, H. (1937). Economic and Social History of Medieval Europe. New York: Harcourt, Brace.

Stark, R. (2005). *The Victory of Reason: How Christianity Led to Freedom, Capitalism, and Western Success*. New York: Random House.

State Department of the U.S. *Protectionism in the Interwar Period*. http://www.state.gov/r/pa/ho/time/id/17606.htm. Retrieved 6/12/08.

Weber, M. (1927, reprint-1981). *General Economic History*. New Brunswick: Greenberg.