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## Article

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# FREE TRADE AND THE ROOTS OF MODERN IMPERIALISM

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**Abstract:** *In his work, „Nation, State, and Economy” (1919), Ludwig von Mises claims that the idea of liberalism starts with the freedom of the individual and it rejects all rules of some persons over others. This paper aims to illustrate an opposite direction, deprecating the 18<sup>th</sup> century colonial practices which have gradually tainted the pacifistic principle of liberalism with the oppressive, imperialistic goals, of the most powerful states. We focus on the British East India Company, which dominated the East Indies. We find that, under the cover of free trading, the British Superpower has often used military intrusion to acquire territories, to rule resources and, through this, to exercise power over the native population.*

**Keywords:** power; imperialism; colonialism; free trade

**JEL Classification:** B0; B5; F1

## INTRODUCTION

Throughout history, the human action is consumed within the space traced by free will- a free will to choose from the fixed available options. The individual choices usually oscillate between aspiration - *what we want*- and what is available- *the resources, the possible*. Possibility, however, is limited by the permission of some authorities, who are ruling by using specific instruments (ideologies, religion, coercion) and claims to legitimize the divine order (king, Church) or the general interest (Central Bank, Government, International Union). In the end, we can see that freedom is dosed by those who own the power of freedom.

In Thomas Hobbes's Leviathan, power (which can be original or instrumental) is conceived as all the means that enable the individual to obtain future goods. For behaviourists, power is an influencing relationship between the behaviours of social actors. The American professor of anthropology, Abner Cohen (1974) argues that economic relations are relations of power, political par excellence (the economical power is integrated by the political power). Ludwig von Mises speaks of might, which is „the power to direct other people’s actions. He who is mighty, owes his might to an ideology. Only ideologies

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can convey to a man the power to influence other people's choices and conduct. One can become a leader only if one is supported by an ideology which makes other people tractable and accommodating. Might is thus not a physical and tangible thing, but a moral and spiritual phenomenon. A king's might rests upon the recognition of the monarchical ideology on the part of his subjects.”(Mises, [1949]1988, p. 188)

Carroll Quigley (1966) distinguishes three levels of the socio-political planning: (1) the military one, focusing on force organization; (2) the political level, concerned with the organization of power; (3) the economical level, inspired by the organization of wealth. By „the organization of power” in a society, we understand the ways in which obedience and consent are obtained. The author claims that the close relationship between levels can be seen through the fact that there are three essential ways of obtaining obedience: power, conviction and the buying of consent. Today, the organization of power - as a method of obtaining obedience - is an advanced version of old methods.

## 1. FREE TRADE AND THE ROOTS OF MODERN IMPERIALISM

We believe that the need of power manifested in normal conditions, or pathologically, is genuinely a constant of the human existence. We also can identify different ways of meeting this need, over time and space. History confirms that purchasing power has been usually made in bellicose ways. The best known examples for the „*thirst for power*” are personalities such as Alexander the Great, Genghis Khan or Julius Caesar. Since biblical times, many nations expressed their dominance through invasions or wars, whose consequences were to accumulate wealth and socio-cultural merging with indigenous populations. The subject of power appears to be **domination**, while its object is **the resource** (human or material). Therefore, many times, obtaining resources is conditioned by conquering new territories.

A special circumstance, of conquering new territories, is colonization. Fifteenth century discoveries paved the way to economic colonialism. One at a time, the Americas, Asia, India and Africa were targets of the metropolitan expansionist policies that have anchored their countries growth and development to „foreign shores”. The colonisations had a global integration effect, by developing the transfer of goods, labour and capital, between nations.

On the other hand, in a reprehensible register, it should be noted that, free labour and raw materials, freely appropriated by the metropolitans, gained them a distinct advantage over the foreign competitors, and thus provided their economical supremacy. Moreover, at the basis of cleavages between North and



South, stands the exploitation of the colonized: the Native Americans, Africans and people of the Middle East.

The colonial policy of the European powers oppose to all the principles of liberalism. Mises claims that „the basic idea of colonial policy was to take advantage of the military superiority of the white race over the members of other races. The Europeans set out, equipped with all the weapons and contrivances that their civilization placed at their disposal, to subjugate weaker peoples, to rob them of their property, and to enslave them” (Mises, 1927, p. 125). Mises debunked the motive of colonial policy, the one of sharing to the primitive peoples the blessings of European civilization; he argued that the superiority of European civilization stands in the ability to inspire other nations to consciously adopt its patterns. The poignancy of his convictions stands in the interrogation: „Could there be a more doleful proof of the sterility of European civilization than that it can be spread by no other means than fire and sword?” (Mises, [1919] 2002, p. 125)

Internationally, the most popular form of power manifestation, in order to increase the strategic and political skills of a nation, is known as *imperialism*. Imperialism has multiple connotations (liberal, conservative, Marxist, etc.). However, they all appear to converge towards the status of a *ruling nation*. Mises reminds that the term *imperialism* was first employed to characterize the modern policy of territorial expansion, in the case of England. „England’s imperialism was primarily directed not so much toward the incorporation of new territories as toward the creation of an area of uniform commercial policy out of the various possessions subject to the King of England. This was the result of the peculiar situation in which England found itself as the mother country of the most extensive colonial settlements in the world. Nevertheless, the end that the English imperialists sought to attain in the creation of a customs union embracing the dominions and the mother country was the same as that which the colonial acquisitions of Germany, Italy, France, Belgium, and other European countries were intended to serve, the creation of protected export markets”(Mises, [1919] 2002, p. 124).

Mises asserted that the colonial expansion was forced upon Great Britain „by other nations’ lust of conquest. Every annexation of a piece of land by France, Germany, or Italy curtailed the market for the products of all other nations. The British were committed to the principles of free trade and had no desire to exclude other people. But they had to take over large blocks of territory if only to prevent them from falling into the hands of exclusive rivals. It was not their fault that under the conditions brought about by



French, German, Italian, and Russian colonial methods only political control could adequately safeguard trade” (Mises, [1944], 1969, p. 97).

The idea of individual freedom is the foundation of liberalism, rejecting all rules of some over the others. Before the Enlightenment ideals reached their practical implementation, the Church and the State were biased structures ruling over the people; at the same time, mercantilism was the doctrine for subjugating other nations, through trade. National economists often recommended trade protections and the exploitation of the colonies in the interests of the mother country. Further, classic liberals theorized free trade as an amiable solution in the international affairs, disqualifying imperialism, which was based on government control and unfair monopolies.

A truly eloquent example of economic imperialism lies in the work of the main colonizing associations in Western Europe, from XVI<sup>th</sup> to XVIII<sup>th</sup> century. The first one of such associations, the British East India Trade Company, is the archetype of today’s transnational corporation. The Company had introduced the shareholder model of corporate ownership and built the foundations for modern business administration (Robins, 2006, p. x). The charter granted by Queen Elizabeth I to the „Governor and Company of Merchant of London trading into the East Indies”, assured the company a monopoly of trade with the East, surpassing the Dutch and Spanish competitors for good.

In the first years of activity, the British Company had been Asia’s commercial supplicant, shipping out precious metals in return for spices, textiles and other luxury goods that Europeans were extremely attracted to. Peter Freyer notes that, once arrived in India, foreign merchants found a country whose development reached the most advanced European nations. India was specialized in agriculture and manufacturing; Indians had a thriving textile industry (cotton, silk and wool were sold in Asia and Europe), excellent iron processing skills and their own shipbuilding industry. Their prosperity was altered by the British administration (Freyer, 1993, p. 22).

The British East India was certainly a monopolistic trading body, which established many factories at Surratt, Madras, Bombay and Calcutta. In 1662, Bombay was rented to England for 10 £ a year. In fact, the company came to conquer many Indian territories, initializing trade and then exercising military power - with the support of her own armies. It is true that some of India’s major cities flourished because of the Company’s trade; still the balance leaned more in favour of the British. The coastal ports of Bombay, Calcutta and Madras, which widened the British land empire, represented the springboard for further domination in South-East Asia, China and Japan; Penang and Singapore were both ports



purchased, by the Company, in a time when territories could be bought and sold like commodities (Robins, 2006, p. 6).

The Company easily gets to be unrivalled and to maintain exclusive rights for Asian imports through lobby, bribe, fraud, and force. Contemporary with the facts, Adam Smith was horrified about the oppressive regime of the Company in the East; he saw it as a great enemy of the open market.

The question we rise is such stratagems why should be dialled by a trading society? The answer stands in the political environment of that age, when nations competed in a violent race for power. Inevitably, the mercantile interests in the home country manipulated the power of the state for ruling over the colony. After the Battle of Plassey (1757) the Asian supplier - European supplicant pattern was broken, with the establishment of the Company rule in Bengal, and then in most of India. The subversive move can be detected in the way that the Crown gave her consent - nevermore a liberal state does not support aggressive plans. Before 1757 the commercial purposes prevailed the political interferences, in the activity of the company. The twist on the situation began with the competition of the French. Although holding the political control of India, the company began to lose ground thanks to the spreading of the new doctrine of Adam Smith, which promoted the free competition; thus the company lost a quarter of the market. Without their monopoly, the British had to find new solutions like importing cheap Lancashire cotton (destroying the Indian local economy); exporting opium to China - a country forced into free trade, through „gunboat diplomacy” and two Opium Wars- and buying tea, in return, which they sold in Europe and America. Further, severe protest occurred over the Atlantic, in Britain’s American colonies, against British oppression, when the East India Company tea was dumped into Boston Harbor - a symbolic start of the American War of Independence. Gradually, the company experienced the reverse of her takeovers. „Initial stock market euphoria quickly gave way to excess, mismanagement and collapse. As the Company transformed itself from a modest trading venture into a powerful corporate machine, its systems of governance completely failed to cope with the new responsibilities it faced. Oppression of local weavers and peasants became the norm. Military spending spiralled out of control as adventurers took over from traders. Corruption assumed epidemic proportions and speculation overtook its shares, stoked up by Clive and others. Then, in 1769, conflict in south India rattled nervy investors, sending its share price into free fall. Financial crisis stalked Europe and the Company faced bankruptcy. Across the world in Bengal, drought turned to famine as Company executives profited



from rising grain prices. Plays, pamphlets and poems poured from the presses back in Britain to pillory the Company and its executives” (Robins, 2006, p. 4).

The British interests in India were constantly changing, even contradictory: an inevitable phenomenon, as the countries taking part to the conquest of India (England, Denmark, and France) experienced the greatest transformative period in their history. The sudden access, of a group of merchants to an enormous territorial power and huge profits, awakened suspicions and resentment within the parliamentary circles and the British leaders. Disagreements emerged sometimes between the British Company and its employees concerning the problem of private commerce, along with the increased pressure exercised by the free-trade partisans for breaking the monopoly of trade. In addition to this, the increasing interests of Lancashire industry, successfully fighting for higher import taxes on Indian textiles, brought a great percent of the company’s fortune; also unilateral free trade enabled the access to the great market of South Asia, on which domestic textiles were sold. All these British Charters placed the company under a narrowest governmental control (UNESCO, 2008, p.1077).

However, at one point, the force of British East India was officially „tempered” by the British Government: in 1772 the Parliament decided to control the company’s Board of Directors and, a couple of years later, it established the secretarial state in India. The private interests were becoming public interests. The private company was turned to a public concern. When, in 1815, the French lost the battle of Waterloo, Britain became the greatest power in the world (a quarter of her budget was consumed by the army). The British East Indian Empire surpassed by far the colonial possessions of all other European nations. In the 1820’s it was virtually the only colonial *power* (Mises, [1944], 1969, p. 96).

The First War of Independence in India (1857-1858) signifies the uprising against the British Company rule. Robinson states that, until the conflict, „the Company had lost almost all connection with the band of merchants who set out in four tiny ships to break into the Indonesian pepper market at the beginning of the seventeenth century. It no longer traded, and it administered its conquests in India as a licensed agent on behalf of the British Crown” (Robins, 2006, p.6). The India Act of 1858 formally certifies that the British state takes over the Company’s rights and responsibilities, by nationalizing it. Until its nationalization, for British East India Company the state’s intervention was a constant reality. The regular renewal of its charter had major state interests: (1) the company collected Indian taxes which financed the government deficits, so the state renounced at his sovereignty in exchange of cheap loans; (2) the company outsourced the pursuit of British domination in Asia.





Later, the Marxist theorists condemned the exploitation of the colonies and associated the liberal ideals to a subversive domination process, of weaker countries by the powerful ones. For liberals such as John Hobson and Norman Angell, the increasing concentration of wealth within imperial states led to under consumption for the mass of people. Overseas expansion was a way to reduce costs of production (and thereby to increase or maintain profit levels) and to secure new markets. On the other extreme, Marxists approve this logic; still, they consider its prescription wrong, since the state represents the interests of capital rather than labour. Lenin (which paradoxically cited Hobson) thought that imperialism is the final stage of capitalism and that the First World War was the culmination of the capitalist competition for new markets and investments (Griffiths, O'Callaghan, Roach, 2002, p. 157).

Therefore, there is a widespread opinion that capitalism leads to war. We assert that war is actually the enemy of trade, by damaging the free markets and free traders' ability to function. You cannot be a capitalist and wish to extend your business through war; since you act under the cost-benefit relationship you will surely know that war is expensive, destructive of property and a serious mistrust creator. The goal of a merchant is not power, but profit. We assume that the great wars during the expansion of markets did not originate only from colonial conflicts, but from nationalist and imperialistic aspirations.

Imperialism is not an inevitable consequence of capitalism; imperialism is corrupting capitalism. Trade, by improving everyone's perception over the gained value, is creating wealthy social conditions for cooperation. Therefore, in the liberal light, free trade is a quest for peace. Nevertheless, while the classical liberals advocated for the moral role of free trade, the structures of power used it, euphemistically, to achieve their less moral goals. Free trade was ideologized and then introduced by force, in the pursuit of national economic power.

In order to illustrate the intended efforts to free trading and the fact that economic theory does not always coincide with the political reality, we identified some instances, regarding the British imperialist expansion: (1) the famous ricardian example of comparative advantage is compromised by the fact that Portugal was dependent on British naval support, and therefore, obliged to accept the conditions of trade which destroyed her production of textiles and inhibited industrial development (Robinson, 1974; Dunkley, 2004); (2) the development of British cotton textile industry, under protection from superior Indian imports- along with the competitiveness of Lancashire, came free trade agreements with India (Nayyar, 2007, p.74); (3) the Opium War, along with the Radical demands of using force to defend the British merchants and to extend their markets (Semmel, 1970, p.206). The slogan of Frederic Bastiat, „if





goods don't cross borders, armies will" express that free trade is the optimal solution to peace and prosperity. But how can we guarantee for its virtue, knowing that the path to free trade was paved by wars and power-directed goals?

Let us not forget the fact that nationalism and imperialism were the forces which drove the European powers of that time in a world domination race. Let us not forget that not only political interfering caused the British Company's vitiation; the greed and pride of some power-blinded men was also significant. In a retrospective analysis, Mises notes that the Europeans in the colonies „were seldom proof against the specific moral dangers of the exalted positions they occupied among backward populations. Their snobbishness poisoned their personal contact with the natives. The marvellous achievements of the British administration in India were overshadowed by the vain arrogance and stupid race pride of the white man" (Mises, [1944], 1969, p. 97).

## CONCLUSIONS

By constantly pursuing the evolution of mankind, the desire for power takes various forms and it vitiates the customs and values peacefully created. We know that trade is older than agriculture or any other sort of regular production; it developed spontaneously, without states, and had a major role in spreading order (Hayek, 1988). Domestically, trade has never been a cause of conflict, while internationally it caused many wars. International trade wars only exist when the government is not performing his stabilizer duties: he may overreact through intervention or can allow immoral acts, by imperialistic policies. Generally, tariffs and other barriers created conflict between nations. Mises (1944) warned that the risk of war is closely linked to the role of government.

We presented an example of a company that served two masters: the market and the imperialistic goals of her mother country. Even nowadays, linking private interests to national aims remains one of the free-market dangers. We brought this example to demonstrate a historical lesson, which contemporary global economy needs to take, once and for all. Free trade is all about the peace and wealth of humankind, but its virtues are constantly attacked by special interests- mostly power interests. We must accept the fact that „directed free trade" can become a weapon in the wrong hands, of those who wish to dominate the markets, not by peaceful, moral acts, but by dangerous, monopolizing demarches. We believe that the race for arms and resources continues, at a quasi-disguised upgraded level, and that



the development of a global *free trade* system is still impeded by the biased rules of the states and supranational entities.

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