5. Finally, the balance of supply and demand is constantly shifting in each nation—crop failures, temporary imbalance in new capacity, et cetera. Foreign trade often is able to bridge the demand/supply gap in individual countries on a current basis.

Free Trade Theory

The extension of the ideas of division of labor and free markets to a worldwide basis has been formalized in the free trade theory. This proposes that in the absence of interferences, division of labor would take place on a worldwide basis; that, as a consequence, man-hour productivity would increase everywhere and this would mean higher standards of living for all. It would result in the use of the best, most readily available raw materials, the best locations, the most effective human energy, and the best ideas, coupled with the best tools to bring about the lowest cost production. The theory proposes that under such conditions individuals would be employed at their highest skills, the most readily accessible and highest quality raw materials would be utilized, and the ultimate in mechanization reached. In other words, this theory holds that if there is complete freedom for trade throughout the world, man-hour productivity, per capita income, and living standards will be maximized. The theory also holds that unilateral adoption of free trade will benefit any nation that practices it, whether or not other nations reciprocate, and that any nation that does not practice free trade cannot obtain the highest standard of living for its people.

The free trade theory does not even require that each nation be able to do something better than all other nations, but merely that each nation be engaged in that production which it can do better than anything else. Dr. C. E. Griffin, professor emeritus, University of Michigan, states the principle of comparative advantage as follows: "If a country is blessed with advantages it always has greater advantages in some lines than in others. It will, therefore, gain most if it devotes its efforts to the things it can do best and exchanges the products of these efforts for things in which its advantage is least." [1]

The advantages proposed for free trade are both desirable and convincing, since man seeks to satisfy his wants with the least possible effort. The free trade theory is very appealing. In an ideal world, free trade might be as perfect in practice as in theory, but to fully evaluate its application, we must examine the premises on which it is based and see to what extent they are realized in the real world. We shall see that many conditions must be fulfilled if free trade is to give the results claimed.

For several decades, the discussions concerning international trade have focused attention primarily, in fact almost exclusively, on the question of tariffs. There has been a tacit assumption that the elimination of tariffs would in and of itself lead to the advantages of free trade.

Careful examination shows that the free trade theory was conceived as a basic natural law. Its attention is centered on division of labor based on natural advantage—natural advantage associated with either

[1] Clare E. Griffin, "A Tariff Policy for Modern Times," Michigan Business Review, vol. V, No. 5 (September 1953), p. 9.