3 Trade Cooperation before 1914

The present-day multilateral regime has its origins in the network of bilateral trade agreements that were negotiated among European countries during the mid–nineteenth century. But the ideas and principles underlying the regime were not an invention of the nineteenth century. For several hundred years, nations had entered into treaties of commerce with each other to protect and advance their own commercial interests. One of the most elemental and long-standing concerns of monarchs and their governments, evident since medieval times, was to gain certain basic rights for their merchants when they traded in neighboring countries. Their first aim was to protect their merchants and their property from arbitrary arrest and seizure, so they sought assurance that their subjects would receive the same treatment under the laws of other states that the latter accorded their own merchants–an early manifestation of the notion of national treatment that has played such a central role in trade relations.

As trade by sea increased after the great explorations and navigational achievements of the fifteenth and sixteenth centuries by Spanish and Portuguese seamen, the terms on which foreign ships could enter ports to trade in cargo also became a major subject of treaties. While most European countries placed restrictions or prohibitions on the use of foreign ships to carry domestic produce or produce from their colonies, some landing of cargo brought from foreign ports by foreign ships was allowed on payments of taxes and port dues. In these historical circumstances, trading nations sought not to overcome the protective effect of these regulations but to ensure that their ships and cargo were treated no worse than those of other foreign countries. Thus, a clause assuring the trading nation that it would receive the same treatment as the most-favored-nation began to appear in commercial treaties centuries before it was elevated into a high principle of the modern multilateral regime.

THE UNILATERALIST FREE TRADE POLICY OF NINETEENTH-CENTURY BRITAIN

When the great nineteenth-century expansion in foreign trade took off following the industrial revolution and the end of the Napoleonic wars, Britain stood out as the economic leader. In some respects, its position was not unlike that of the United States after the Second World War. Though it did not exercise the military dominance of the United States, it was a great maritime power, and it enjoyed a technological superiority that gave it a strong competitive advantage over others. Britain's rising commercial interest was to gain ready access to foreign markets and sources of supply. Its search was made easier by—and partly accounted for—the existence of its huge empire, which provided what was virtually an overseas extension of the domestic market. (Cambridge economist Alfred Marshall saw the existence of the empire as a basic reason for the rise of the British entrepreneurial class [Marshall 1946, app. A].) A substantial proportion of British manufactures, however, also went to the countries of Europe and the Americas.

Like most European countries, Britain entered the nineteenth century with a protectionist policy in place. It had long pursued protectionist measures to support its technologically advancing industries and to favor the expansion of its merchant marine. The new export interests in the manufacturing industry were slow to influence policy, and the change eventually made to accommodate these interests—the unilateral lowering of national tariff barriers—is surprising, at least when viewed through the lens of present-day beliefs and practices. The reasons for the long delay and for the particular twist in policy lay in the specific economic circumstances and institutional conditions that prevailed in Britain at the time.

In the slow adaptation of its policy to the new interests, Britain's first notable step was to pass the Reciprocity of Duties Act of 1823, which signaled the abandonment of the policy—pursued during the eighteenth century—of making reciprocal concessions on a strictly bilateral basis in treaties with close trading partners. Third countries had responded to these preferential treaties with retaliatory measures or by raising their duties or port dues in the hope of negotiating better terms. The policy had not assured British traders the stable conditions that they desired. With the adoption of the Reciprocity of Duties Act, Britain negotiated several new commercial treaties that were significantly different because they extended most-favored-nation treatment to trading partners. While hedged with numerous exceptions, the treaties, in principle, gave both signatories some equality of treatment regarding port dues and accorded each other's exports their most favored rates of duty. These treaties were sometimes paralleled or succeeded by tariff reductions, although success on that score was limited. (What Britain saw as reciprocity in reductions failed to convince its trading partners. Britain was the undisputed leader in exports of manufactures, but because of its protectionist agricultural policy, it offered only restricted access for the agricultural exports of its partners.)[1]

Mutual tariff reductions were not a central issue in trade relations among countries at that time. In almost every independent country, duties on foreign trade were regarded as being in the domain of domestic fiscal policy. Central governments derived a substantial part of their revenue from these duties (as most governments in Third World countries continued to do in the early decades after the Second World War). Accordingly, there was a widespread assumption that any changes in tariffs were a matter for each country to decide by itself in the light of its own fiscal policy. The negotiation of tariff reductions on any extensive scale was not seen as a key instrument of trade policy.

In the circumstances that prevailed at the time, British exporters saw the maintenance or improvement of their access to foreign markets as lying not so much in the lowering of tariff barriers abroad as in reducing production costs at home. They sold their manufactures readily, despite high tariff walls, and they believed that they could continue to do so as long as their costs could be kept down. But domestic agricultural production, particularly food production, was highly protected. They reasoned that if agricultural protection could be ended at home, it would lower the cost of wage goods (most notably food), which would enhance the competitiveness abroad of domestic manufactures. There was, moreover, a common–if mistaken–notion that other countries were raising their tariffs on manufactures in retaliation for British agricultural protection. It was hoped that the lowering of British trade barriers would encourage other countries to follow suit. These commercial beliefs fired the decades-long campaign for repeal of the Corn Laws (the laws protecting domestic agriculture) and for a shift of policy to free trade, a campaign led vigorously by Richard Cobden and John Bright, both in and out of Parliament.[2]

In the early 1840s, some progress in lowering trade barriers was made by Sir Robert Peel, the prime minister at the time. Bad harvests, high corn prices, and cyclical unemployment generated popular unrest, and Sir Robert had, moreover, become intellectually convinced by the argument for free trade. In 1842, export duties were abolished, and some import duties, including duties on imported corn, were reduced; further reductions were made in 1845. Full acceptance of the free trade policy was delayed because, as I described in chapter 1, the landed gentry still exercised substantial political power and strongly resisted reform. They were finally defeated, however, by the traumatic events of the "hungry forties." When bad harvests persisted and were accompanied by the potato blight in Ireland, causing great distress and famine, the free traders finally won the day.[3]

The dissatisfaction with the prevailing protectionist policy derived strong intellectual support from the doctrine of free trade that had been put forward by Adam Smith and David Ricardo, the leading economists of the age, known today as the classical exponents of the free market, capitalist system. Britain was surely no less nationalistic than other countries at the time, and such a policy of unreciprocated, unilateral reductions in tariffs could have been seen–and almost certainly would be seen today–as a failure to safeguard the national interest. However, in line with the teachings of the classical economists, the free traders were convinced that the reduction of tariff barriers was in a country's own best interest and that it thus made no sense to make the reductions conditional on similar action by other countries.[4] The free trade doctrine meshed well, then, with the commercial interest of the manufacturers.

The free trade doctrine became deeply entrenched in British trade policy, serving not only as a justification for its introduction but also as a model for the guidance of policy thereafter. It took some twenty years for the policy to be fully implemented, since alternative sources of revenue had to be found; it was only with the introduction of an income tax that the final steps could be taken. But the policy persisted well beyond the era of Britain's industrial supremacy. This persistence was owed not only to the institutionalization of the policy but also to its consistency with the laissez-faire liberalism that prevailed in Victorian Britain. As it was then seen, the business of government was largely to defend life and property at home and abroad. It was certainly not to engage in the manipulation of import duties for the purpose of intervening in some way in the functioning of the domestic market.

THE NEW NETWORK OF COOPERATIVE TRADE TREATIES

Almost by definition, the unilateralist free trade policy of Britain contributed nothing directly toward the advance of trade cooperation; it is almost a historical accident that Britain played a role in ushering in a new phase of trade cooperation. The opening occasion was the signing of the Cobden-Chevalier Treaty between Britain and France in 1860. The treaty proved important because it gave rise to the negotiation of a series of bilateral trade treaties—mostly among continental European countries—that placed trade cooperation on a new footing. First, the reduction of tariffs on a reciprocal basis moved to center stage in trade negotiations; second, in making the reductions, countries accorded each other most-favored-nation treatment. These two operating principles of reciprocity and nondiscrimination became central ideas enabling subsequent progress in trade cooperation up to the present day.[5]

The necessary condition for the advance in trade cooperation after 1860 was undoubtedly the nascent industrialization of the countries of Europe. These countries were very aware of Britain's industrial superiority and took national pride in the efforts of their own producers to exploit the new technologies generated by the industrial revolution. The larger countries gave emphasis to the importance of their home market as the rightful province of their own new industries. New industrial growth, however, also led to an intensification of the search for markets and for sources of supply beyond national frontiers.

The Cobden-Chevalier Treaty

The more immediate circumstance advancing trade cooperation was the signing of the Cobden-Chevalier Treaty. The occasion for the treaty was as much political as commercial or economic. In both Britain and France, leaders at the time felt the political desirability of some immediate gesture of friendship between their nations. Louis-Napoléon was concerned that in having seized the territories of Italian principalities, he was seriously antagonizing the other powers of Europe; some political leaders in Britain believed that recrudescent fears at home of an expansionist France could further estrange the two countries and engender more warlike behavior. These political concerns coincided with a conviction on the part of Louis-Napoléon and his advisors that France was slipping behind economically and needed to enhance the competitiveness, efficiency, and pace of technological innovation in its own industry and agriculture.

Louis-Napoléon had been impressed by the reforms introduced in Britain by Sir Robert Peel when he lowered tariffs and repealed the Corn Laws. Europe's trade had, in fact, risen strongly since the reforms (its exports had increased by 6 percent per annum, faster than at any other time in the century), strengthening the belief that there was a link between free trade and economic growth.[6] The free trade idea was sweeping Europe, and Richard Cobden was invited to several capitals to speak. At the instigation of Michel Chevalier, his key trade advisor, Louis-Napoléon had lengthy discussions with Cobden. Louis-Napoléon was accordingly well disposed to the proposal that France should likewise seek to lower its trade barriers, both internal and external. Many French producers, however, who had long been sheltered behind protectionist barriers, feared greater foreign competition, and they had friends in parliamentary circles. But by seeking reciprocal tariff reductions from Britain, Louis-Napoléon was able to counterbalance this opposition with the support of those who would benefit from greater exports.[7]

Cobden, who negotiated on behalf of Britain, was unenthusiastic about such reciprocity; as a convinced free trader, he believed that tariff reductions were to be gladly made and were not something to be reluctantly conceded in the process of hard bargaining. Still, Britain undertook to lower duties on imports of French wines and spirits; it recognized that the treaty had a larger political purpose. Cobden wrote to a friend: "I would not step across the street, just now, to increase our trade, for the mere sake of material gain. . . . But to improve the moral and political relations of France and England by bringing them into greater intercourse and increased commercial dependence, I would walk barefoot from Calais to Paris" (quoted in Hinde 1987, 288).

The New Network

It may be that what brought the Cobden-Chevalier Treaty into being was the fear that national antagonisms might get out of control. The treaty nonetheless had consequences of longer-term significance for international trade cooperation. It initiated the emergence of a network of bilateral trade agreements among the main trading nations of Europe, the prototype of the multilateral trading system that we know today. The agreements were the outcome of negotiations principally aimed at achieving tariff reductions on a reciprocal basis, and because they included most-favored-nation clauses, the agreements were interlocked. With the signing of the Cobden-Chevalier Treaty, producers in other European countries became concerned that they would be competing in France with British exporters who would enjoy a tariff advantage. France, as it had hoped, was soon approached by these countries to enter into commercial treaties with them. The prospect of access to the French market was, in effect, used as a lever to gain tariff reductions from others. The core of these subsequent negotiations was the schedule of "conventional" tariffs that France had drawn up under its treaty with Britain. In return for tariff reductions from the other countries, France agreed to use the schedule applicable to the most favored nation—namely, Britain.

The linchpin in this network of trade agreements was the most-favored-nation clause. The treaty between Britain and France provided that "each of the high contracting parties undertakes to allow the other Power to profit by any such favor, privilege, or abatements in the tariffs of duties on imported articles mentioned in the present treaty as either of them might grant to a third Power" (Article 19). Clauses of this nature became standard in the agreements subsequently drawn up by other European powers. This broke the past pattern of bilateral agreements that confined any concessions to the negotiating countries and that—being discriminatory in consequence, if not in intent—were the cause of bitter trade rivalries.

The United States: A Free Rider

One major trading nation that did not become part of the new network was the United States. The U.S. Congress did not, for the most part, see tariffs as an issue that was negotiable between nations; the determination of their level was a matter of domestic policy. In fact, the predominant view among U.S. politicians was that high tariffs were necessary to protect the American market and the American worker from the competition of cheap European labor (see Goldstein 1993, 93, 114). Tariff reductions negotiated by the United States to gain concessions from trading partners related mainly to noncompeting imports, such as tropical products. In the same spirit, tariff reductions were granted on a strictly bilateral basis; they were extended to other countries only on the condition that the latter likewise granted the United States equivalent concessions.

This conditional view of the most-favored-nation clause became a source of much irritation to U.S. trading partners and a fertile ground for trade disputes. The European nations tolerated the American policy as long as the United States remained mainly an exporter of food and raw materials, commodities subject to low or even zero tariffs in their own countries. But as the United States became a significant world exporter of manufactures, the disparity in the American treatment of European exports became a cause of increasing complaint among European manufacturers. The United States was enjoying the status of a "free rider," benefiting from the unconditional most-favored-nation treatment that other countries accorded it, but not granting the same treatment to them.

INDUSTRIALIZATION, PROTECTION, AND TRADE COOPERATION

The network of commercial treaties that came into being after the signing of the Cobden-Chevalier Treaty brought about a period of lowered trade barriers in Europe. The outright import prohibitions practiced by some countries were mostly dropped in favor of tariffs, and existing tariffs were reduced. One observer at the time believed that tariff levels were cut by about half, and incomplete evidence for individual countries is consistent with this view (see Barclay 1914, 65; Shafaeddin 1998, 16). Moreover, most commercial treaties were for a duration of ten years, so a greater measure of stability was introduced into trade relations. It is not surprising that in the 1860s and into the 1870s, many believed that a new era of more liberal trade policies appeared to be dawning, at least among the countries of Europe. However, the movement toward greater trade liberalization came to a halt in the 1870s. While there was no substantial reversal in the downward revision of tariffs until the 1890s, the political rhetoric had shifted in favor of protection.[8]

The rise in protectionist sentiment is partly explained by shifting group interests within each country. Long-term economic growth altered the relative importance of these interests within society, and changes in current economic circumstances modified each group's perception of its own interest. The worldwide depression that began in 1873 and lasted until 1877—perhaps as severe as the depression of 1929—was one such change in circumstances.[9] A more lasting factor was the large structural change caused by falling transport costs and the mechanization of extensive agriculture in North America. Europe's agriculture faced an increase in lower-cost overseas supplies of grains and other agricultural products, and it entered a long agricultural recession that persisted from the 1870s to the 1890s. Agrarian interests joined forces with the many industrialists who were pressing for protection.

The climate of political opinion at the time assured such group interests a favorable hearing for their demands for more protection. It was a period of strong nationalist rivalries among European countries. Germany and Italy were newly founded as nation-states. (Prussia had recently proved its military prowess in the Franco-Prussian War of 1870.) In the last decades of the nineteenth century and into the twentieth century, the leading nations, including the United States, vied fiercely with each other to establish or extend their overseas empires or spheres of influence. Overseas territories were perceived as important not only as markets but also because the idea of national self-sufficiency in raw materials carried considerable weight as an element in national security.

Germany

In Germany, the shift toward a more protectionist stance took place in the late 1870s, under Chancellor Otto von Bismarck. Prussia had long prevailed on the Zollverein—from its early formation as a customs union of German states—to pursue a low-tariff policy, and over the years, Bismarck himself had largely rejected calls for more protection. Industrial interests, however, were gradually acquiring a rising political influence. The formation of the Zollverein itself, with its large internal free market, was probably a major reason for Germany's industrial growth and the advancing industrial influence. Also shifting the balance in their favor was the cession of Alsace and part of Lorraine to Germany after the Franco-Prussian War of 1870; these territories were centers of heavy industry and accustomed to higher French protection. The depression in agricultural prices, brought on by the influx of grains from North America and the Ukraine, appears to have finally persuaded Bismarck to abandon his free trade stance.[10] Since higher tariffs on agricultural products provoked protests from industrial businesses and workers, industrial tariffs were also raised, consummating the "marriage of iron and rye." In this changed climate, a succession of tariff increases followed. The increases gained momentum in the 1890s in reaction to similar policy shifts in other countries.

In the decades following the shift in policy, Germany's industrialization advanced strongly, and the country emerged as a world leader in such industries as steel, chemicals, and the electrical industry. Germany simultaneously became a major exporter of manufactures. By 1900, in fact, manufactures accounted for approximately 70 percent of total German exports, a higher proportion than attained even by Britain (Batchelor, Major, and Morgan 1980, table 6.10). As a consequence, Germany exercised some restraint in its tariff policy, because it did not want to provoke its trading partners into retaliatory increases in their tariffs (see Clapham 1955, 319). A long-considered revision of the German tariff structure was introduced in 1902. It was based on the "scientific" principle of cost equalization (widely accepted at the time as reasonable), according to which duties should reflect the difference between domestic and foreign costs. (Duties tended to rise with the degree of processing; raw materials were free of duty, while finished manufactures attracted the highest rates.)

France

After pursuing a more liberal trade policy under the regime of Louis-Napoléon, France, too, became more protectionist in sentiment, after its defeat by Prussia at Sedan in the Franco-Prussian War of 1870.[11] Parliament resented its loss of command over tariffs that followed from the signing of long-term commercial treaties. Since the executive branch of government had the power to negotiate treaties, it could commit the country to tariff schedules that did not have the approval of the legislature. Parliament's solution was to introduce the Méline Tariff, which set minimum and maximum rates of duty within whose limits the executive branch could set the actual rates to be applied in trade agreements. In practice, the government applied the minimum rate in trade with countries enjoying most-favored-nation treatment. However, these minimum and maximum rates could be altered at any time by Parliament; so, in principle, the stability of the older regime of treaties was lost. In 1895, the Loi du Cadenas virtually gave government the authority to raise tariffs at will, and between then and 1908, the power was exercised thirty-seven times.

Russia and the United States

The support for protectionism coming from the fusion of nationalism with domestic industrialization was strongest in the two large countries of Russia and the United States, although both were no more than peripheral members of the new network of commercial treaties. In the 1890s, Russia, urged on by its industrialists and having a finance minister who was persuaded by Frederick List's infant industry argument, made further substantial increases to its already high tariffs. Since it was firm in regarding tariff setting as an autonomous matter, it did not feel bound by the restraint that commercial treaties normally imposed on the alteration of tariffs.

The United States likewise saw tariffs as almost exclusively a matter of domestic policy. The country had emerged from the Civil War with a higher tariff structure than before, since tariffs were raised to help pay for the war. The South, which favored free trade, had lost its political influence, so Congress came to assume a more deliberately protectionist stance. With its huge and expanding internal market, American industry knew no border restraints on its growth and diversification. Though the United States stood alongside Germany in industrial leadership, only 30 percent of total U.S. exports in 1899 consisted of manufactures (Batchelor, Major, and Morgan 1980, table 6.10). Congress raised tariffs in the McKinley Tariff Act of 1890 and, after a brief flirtation with tariff reductions, moved to an even greater level of protection with the adoption of the Dingley Tariff in 1897. Though American exporters of manufactures organized themselves to advocate changes in U.S. trade policy and, in particular, to gain acceptance for the idea of negotiating mutual tariff reductions on the basis of reciprocity, it was to no avail at the time (see Becker 1982, chap. 4).

Other Countries

Even in Britain, some disenchantment with laissez-faire liberalism crept into the political debate by the turn of the century. Britain was losing its industrial preeminence and was experiencing much greater competition both at home and in export markets. A Conservative Party leader, Joseph Chamberlain, began to advocate some protection for domestic industry and the formation of a preferential trading area within the British Empire.

Almost all of the other countries outside of Europe and the

United States that were able to pursue independent tariff policies also leaned toward greater protection. Japan, which had been obliged to follow a low-tariff policy by the commercial treaties foisted on it by foreign powers when it first opened up to trade, began to assume a more protectionist stance by the turn of the century. Much earlier, Australia, New Zealand, and Canada, all of which had been accorded tariff autonomy by Britain, had moved to introduce some protection of domestic industries. The larger Latin American countries (Argentina, Brazil, Mexico, and Venezuela) were likewise protectionist. Only the Ottoman Empire continued to pursue the low-tariff policy that it had long followed.

Most of the other countries of the world were not able to pursue independent trade policies at the turn of the century. Either they were colonies or dependencies of the Western powers, or they were too weak to resist the latter's dictates. This was true for most of the Asian countries from India to China, most of the African countries, and the many smaller countries of Central America and the Caribbean. One indication of their common state of dependency is the fact that a British citizen was inspector general of the Chinese customs authorities from 1863 to 1908 (see Foreman-Peck 1995, 47). In these vast, economically undeveloped parts of the world, virtual free trade policies continued to be rigorously pursued.

Not a Global Free Market

The move toward greater protection among most of the leading trading nations has to be seen in its proper perspective. The rise in tariff levels among the European countries was generally not excessive. By 1914, the average level of import duties on manufactures was 13 percent in Germany, 20 percent in France and Sweden, 18 percent in Austro-Hungary and Italy, 9 percent in Belgium and Switzerland, and only 4 percent in the Netherlands (League of Nations 1927). Tariffs on many agricultural products and raw materials were low or zero. Moreover, other trade barriers, such as import quotas or exchange control, were virtually unknown. Still, it is quite clear that the pre-1914 period was not an era of undiluted free trade. Britain chose to practice free trade, and the many colonial or semidependent countries of the Third World were obliged to do likewise; but tariff levels in continental Europe were not insignificant, and there were many internal barriers to foreign competition. Further, among independent countries outside Europe, tariff levels were high. By 1913, the average level of duties on goods imported into the United States–whose economic growth, incidentally, was greater than that of any European country between 1870 and 1914–amounted to 44 percent. In Russia, it was 84 percent; in Japan, 30 percent; in Australia, Canada, and New Zealand, between 15 and 26 percent; and in Argentina, Brazil, and Mexico, between 28 and 70 percent (Bairoch 1993, table 3.2).

THE NEW BONDS TESTED: RETALIATORY ACTION AND TRADE WARS

The drift into a world of unilateral tariff increases was only one element in the indirect assaults on trade cooperation that occurred from the 1870s on. Some commercial treaties were not allowed to run their course but were denounced in midstream, and long periods elapsed before they were replaced by new treaties. Bilateral trade relations were thus deprived of a stable business environment and were vulnerable to arbitrary administrative action. After France had denounced its treaty with Britain, the representative of the British Chamber of Commerce in Paris observed in the late 1870s that the want of a treaty was exacerbating relations between the two countries; past restraints in judging each others' actions were gone, and misunderstandings escalated into recriminations (see Barclay 1914).[12] Even when trade agreements were signed and conventional tariffs were established, the duration of the agreements was generally shortened. Moreover, besides less stability in trade barriers, other sources of tension were arising from accusations of unfair competition, particularly the alleged dumping that ensued from the dual pricing system of the German cartels.[13] But most serious of all were the trade wars that broke out on several occasions.

Trade wars ensued when countries overreached themselves in seeking to shift the balance of advantage between easier access to foreign markets and more difficult access to their own. In this regard, the 1880s and the 1890s were a period when countries learned through hard experience that cooperation placed limits on unconstrained, independent action. When the reciprocal nature of cooperative trade relations was myopically forgotten, trade wars erupted.

There were a number of these major confrontations known as trade wars: the Franco-Italian war, 1886–95; the Franco-Swiss war, 1892–1895; the Russo-German war, 1893–94; the Spanish-German war, 1894–99; and the Rumania–Austro-Hungary war, 1886–93.[14] Though each differed in specifics, the pattern of mutual loss was similar.

The Franco-Italian Trade War

The bitter war between France and Italy serves as an instructional example. Italy, which had not long achieved its unification as a nation, set about increasing its tariffs both to raise revenue and to promote industrial development. It denounced its commercial treaty with France in 1886; introduced a new tariff schedule the following year, raising the level of industrial protection to about 60 percent; and then proposed the negotiation of a new treaty with France. France refused. In late 1887, Italy went even further and asked France to reduce its tariffs on major Italian exports–silk, wine, oil, and cattle. The French response was to threaten punitive duties if Italy did not revert to the terms of the old commercial treaty. There ensued a succession of tariff-raising actions and retaliations, proposals and counterproposals, which failed to resolve the issue. By 1895, Italy was obliged to accept defeat. It had to apply the terms of the treaty that it had denounced, and it had to accept that its exports would be subject to the higher tariffs incorporated in the more recent Meline schedule adopted by France. France might have persisted longer in the war. It decided, however, that its political aim of prying Italy loose from the Triple Alliance would be better served by the restoration of more open trading relations than by punitive tariffs. (The Triple Alliance was composed of Austro-Hungary, Germany, and Italy and was clearly directed against France.)

Trade between the two countries fell substantially during the trade war, and both countries experienced dislocation in their export markets and sources of supply. However, an equivalent decline in exports bore more heavily on the Italian economy as the smaller and less developed of the two. It only aggravated matters for Italy that its exports to France fell by more than did French exports to Italy. In taking the aggressive stand that initiated the trade war, Italy had apparently misread the economic situation quite badly. It believed that its exports to France would be less easily replaceable than was actually the case, and it failed to take realistic account of its relative weakness as the smaller country.

But the more general lesson was that a trade war had costs for both trading partners. However easily either partner could find alternative markets and sources of supply, there were costs both in the temporary dislocations caused by the readjustments and in the lower profitability or higher cost of their substitute market or source of supply.

COOPERATION WITHOUT A HEGEMON

The foundations of modern trade cooperation were laid in the second half of the nineteenth century. The negotiation of reciprocal trade agreements incorporating most-favored-nation treatment became the established way for countries to gain assured access to each other's markets. These practices of reciprocity and nondiscrimination emerged out of the practical experience of countries in finding arrangements that fulfilled their commercial aims while simultaneously allaying the political objections and fears that were raised at home.

The underlying driving force behind this advance was the intensified search for markets generated by the industrialization of Europe. Manufacturers everywhere, joined by farmers in some countries, pressed for easier access to foreign markets. This large economic change, leading to greater commerce among nations, need not have fostered cooperation in trade policies; it could have led to increased rivalries among nations and to attempts to establish exclusive markets. But in nineteenth-century Europe, the use of force was not generally a feasible alternative to diplomacy as a way of gaining access to the markets of neighboring countries; nations were not prepared to risk war over the issue. Even the smaller countries could not be threatened by the larger without the latter risking confrontation with other larger powers. The network of bilateral agreements that emerged, however, was always at risk, since all nation-states harbored the desire to exercise complete autonomy over their commercial policies. What restrained them from yielding excessively to their own inclinations was less a recognition of the mutual benefits that flowed from trade cooperation than a fear of retaliatory action if they went too far in restricting access to their own markets.

Though still the leading economic and maritime power, Britain played no direct part in the design or implementation of the new world of trade cooperation. Having adopted free trade, Britain had given away the bargaining counter necessary for the negotiation of reciprocal reductions in trade barriers.[15] Britain's contribution as a leader was, at best, indirect. In underwriting an international system of stable exchange rates, in providing both short-term and long-term capital, and in deploying a naval power that it was willing to use in support of unhindered trade and respect for contracts, Britain helped substantially to create a climate conducive to the growth of world trade. But its doctrine of laissez-faire liberalism and its policy of free trade did not take root in other countries or account for their movement toward greater trade cooperation. For a time in the 1860s, with Britain as the great example, the export-oriented model of development attracted supporters in the governments of Europe and gave an added impetus to the new wave of commercial treaties that then emerged. But for most of the century, other countries raised skeptical eyebrows at the coincidence of interest between British industrial leadership and its espousal of free trade policies, and they were not dissuaded from resorting to protection of their own new industries. In trade at least, the fairly liberal international economic order that prevailed from 1860 to 1914 was not a consequence of British preeminence. It grew out of an often reluctant cooperation among nations, and as James Foreman-Peck has observed, it emerged unaided by leadership or hegemony (Foreman-Peck 1995, 115).