

A Pedagogical Note on Bastiat's *Restraint of Trade*

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Abstract

Fredric Bastiat was a great expositor of free trade. This note uses his essay on “Restraint of Trade” to distinguish between marginal and infra-marginal units of domestic production that are forthcoming when an embargo is imposed on an imported product. This not only clarifies Bastiat’s analysis but also provides a springboard for teaching the marginal infra-marginal distinction.

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Fredric Bastiat’s writings are well-regarded works of classical economic exposition. Bastiat made powerful, succinct, and convincing arguments for free markets. Yet, to the best of anyone’s knowledge, he never drew a diagram, scribed a mathematical equation, or collected a data set. Moreover, his popular appeal has been persistent. In 1909 Bastiat’s *Fallacies of Protection* was republished. The book review editor at the *Journal of Political Economy* described it as “brilliant and famous” and highlighted the edition’s glowing introductory note by then British Prime Minister H.H. Asquith. (Book Review and Notices, 1909, pp. 652–53) Henry Hazlitt’s *Economics in One Lesson*, originally published in 1946, openly and enthusiastically acknowledges the book’s debts to Bastiat (Hazlitt, 1946). Friedrich Hayek wrote the introduction to the 1964 translation of Bastiat’s *Selected Essays in Political Economy*.¹ Bastiat’s writings

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¹ Hayek noted that Joseph Schumpeter called Bastiat “the most brilliant economic journalist who ever lived.” Hayek also noted Schumpeter’s “harsh assessment” of Bastiat as “not a theorist” (Bastiat, 1995, p.ix). Indeed, Schumpeter (1909, p.223) dismissed Bastiat as among economists whose “importance was not very great” and was “now rapidly declining.” A century later Paul Samuelson mentioned Bastiat in a

continue to be widely available. A new collection of his previously translated works appeared in 2007, and a collection of some of his previously untranslated work was released in 2011 (Bastiat, 2007, Bastiat, 2011).

The purpose of this note is to examine Bastiat's essay "Restraint of Trade" as a classroom exercise. Although Bastiat's basic insight is correct, his analysis is incomplete because he does not and perhaps could not distinguish between marginal and infra-marginal units. We may excuse Bastiat; after all, marginal analysis was not part of the general body of economic knowledge in his time.² Moreover, Bastiat's essay focused on changes in the terms-of-trade for a single unit of consumption by his representative citizen John Goodfellow. This was undoubtedly because he was striving to make a clear and convincing point to a popular audience. Economics instructors can empathize with the difficulty of transitioning from analysis of a single unit to analysis of multiple units. It is precisely this kind of expositional difficulty that is the justification for much of the analytical framework of undergraduate economics. Bastiat would surely applaud his exposition being a springboard to emphasize the importance of a more complete understanding of microeconomics of international trade via marginal analysis!

Bastiat begins his analysis from the perspective of a French iron mine owner frustrated by the competition from lower-cost Belgian mines. The French mine owner, aptly named Mr. Protectionist, opines, "Belgian iron is sold in France at ten francs (per hundred kilogram) which forces me to sell mine at the same price. I should prefer to sell mine at fifteen and cannot because of this confounded Belgian iron" (Bastiat, 1995, p.28). Mr. Protectionist first plans to go to the border with "four pistols" and a "cartridge box" and kill anyone who brings iron ore into France. On second thought, he decides to go to the "great law factory in Paris" and get "a nice little

rejoinder to his last major paper on trade theory; however, Samuelson clearly disparaged Bastiat as a naïve advocate of free trade. Yet, in the same year Caplan and Stringham (2005) argued that Bastiat's theory of political economy was at the cutting edge of public choice analysis. Suffice it to say, Bastiat's reputation as a theoretical economist has been much more controversial than his reputation as an economic educator and journalist.

² Interestingly, early marginal analysis was being developed in France by Cournot and Dupuit at the time Bastiat was writing; see Ekelund and Hebert, 1999. There is no evidence to this author's knowledge, however, that Bastiat had been exposed to this work.

law saying ‘Belgian iron is prohibited’” (Bastiat, 1995, p.28). Mr. Protectionist tells the legislature that if they prohibit Belgian iron so that iron prices rise to fifteen francs, “I shall extend the exploitation of my mines; I shall employ more men. My employees and I will spend more, to great advantage of our suppliers all around us. These suppliers having greater market will give more orders to industry and gradually this activity will spread throughout the country.” Bastiat then reports that, “Charmed by this discourse, enchanted to learn that it is so easy to increase the wealth of people simply by legislation, the manufacturer of laws voted in favor of the restriction” (Bastiat, 1995, p.29).

These details allow students to specify initial conditions in the French iron market as presented in Figure 1. D^{domestic} is the French demand. S^{domestic} is the French supply. The curve S^{foreign} represents the supply of iron from Belgium—and assumes that France is a price taker in the iron market. Initially, France produces Q_x units of iron, consumes Q_y units of iron, and imports $Q_y - Q_x$ units from Belgium. Iron is measured in 100-kilogram (kg) units. Figure 1 also reveals what occurs in the French iron market if there is no access to Belgian iron. Autarkic equilibrium emerges at point $E^{\text{trade restriction}}$ with a price of iron of fifteen francs and a quantity of Q_z .

Bastiat argues that the trade restriction cannot confer a net gain to the French economy. He does this by introducing a hypothetical buyer of Belgian iron, John Goodfellow, who buys one unit of iron both before and after the trade restriction. Before Goodfellow pays ten francs for the iron, whereas after Goodfellow pays fifteen francs.

Bastiat notes that that this: “constitutes an advantage for (Mr. Protectionist)” and argues that:

...the *profit* of Mr. Protectionist is counterbalanced by the *loss* of James Goodfellow, and anything that Mr. Protectionist will be able to do with this five-franc piece for the encouragement of domestic industry, James Goodfellow could also have done. (emphasis in original translation) (Bastiat, 1995, p.29)

He then goes on to outline how James Goodfellow uses his fifteen francs before the iron embargo. His analysis is rather sophisticated, for he notes that by channeling ten French francs to a Belgian iron seller, Goodfellow is facilitating the Belgian’s ability to

buy 10 francs of French goods—which Bastiat specifies as ten francs’ worth of French millinery. Bastiat points out that Goodfellow:

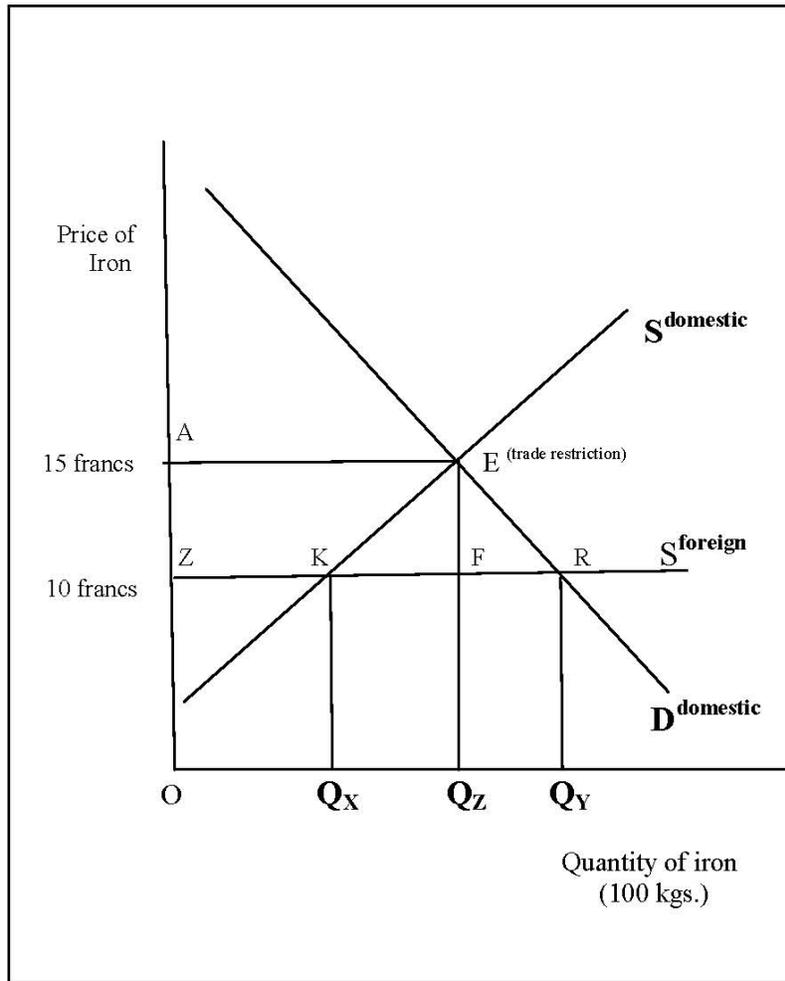


Figure 1: Bastiat’s embargo of Belgian iron.

... still has five francs left. He does not throw them into the river, but (and this is what is not seen) he gives to some manufacturer or other in exchange for some satisfaction—for example, to a publisher for a copy of the *Discourse on Universal History by Boussuet* ... Comes the decree. James Goodfellow, in giving his fifteen francs to the last centime to Mr. Protectionist for a hundred kilograms of iron, has nothing

now but the use of the iron. He loses the enjoyment of the book... (Bastiat, 1995, p.29)

Bastiat then argues that:

But it is said that domestic industry gains the difference. No it does not gain it, for since the decree, it is encouraged only as much as it was before, to the amount of fifteen francs. Only since the decree the fifteen francs of James Goodfellow goes to metallurgy, while before the decree they were divided between millinery and publishing. (Bastiat, 1995, p.29)

Ending his essay, he asserts:

We do not deny that (the decree) may bring for Mr. Protectionist or his industry, or if you wish for domestic industry, a profit of five francs. But we affirm that it will also give rise to two losses: One for James Goodfellow, who pays fifteen francs for what he used to get for ten; the other for domestic industry which no longer receives the difference. (Bastiat, 1995, p.30)

This poses a question. Is Mr. Protectionist better off by five francs or not? Bastiat first states that Mr. Protectionist gets an “advantage” of five francs and later refers to “a profit of five francs” for Mr. Protectionist. Yet he argues that domestic industry no longer “receives the difference” and asserts the fifteen francs is directed to metallurgy. These later two assertions are sensible if the five francs is absorbed by of the higher opportunity cost of the French iron, but then the five francs does not confer an “advantage” or “a profit of five francs” to Mr. Protectionist in the ordinary sense of the word.

This can all be clarified by referring to Figure 1. The exercise offers a powerful example of thinking at the margin. Bastiat makes clear that Goodfellow is originally buying a single unit of iron from a Belgian supplier and that Goodfellow continues to purchase the single unit from Mr. Protectionist after Belgian iron is banned. To produce the unit of iron, Mr. Protectionist must bid resources away from other uses. The key is to ask students “to which unit of iron between Q_x and Q_z is Bastiat referring?” Note that the unit must lie in this range, as it is a unit of iron that is consumed both before and

after the restriction but produced in Belgium before the restriction and in France after the restriction.

If the unit of iron purchased by James Goodfellow from Belgium is the Q_{zth} unit in Figure 1, then the value of the resources bid away from other uses is fifteen francs, and there is no advantage to Mr. Protectionist. The five francs is part of the opportunity cost of the marginal unit of iron production and cannot confer a gain to Mr. Protectionist or anyone else. Low-cost Belgian iron has been substituted for higher-cost French iron, generating a net loss to France of five francs. Mr. Protectionist cannot spend the five francs to purchase an offsetting item. The redirection of production from book publishing is absorbed in the increased opportunity cost of the unit of iron. In this case Bastiat is right that “domestic industry ...no longer receives the difference,” but then there is no five-franc advantage to Mr. Protectionist.

If, on the other hand, the unit of iron purchased by James Goodfellow is the Q_{xth} unit in Figure 1, then the value of the resources bid away from other uses is just a trifling above ten francs, and there is (almost) a five-franc advantage to Mr. Protectionist. As in the first case, Goodfellow is five francs poorer from the trade restriction, but since the marginal cost of producing the unit of French iron is a trifling above ten francs, there is (almost) a franc-for-franc transfer to Mr. Protectionist. Mr. Protectionist presumably spends the five francs on something produced by some branch of French industry. There is essentially no gain or loss to the French economy, only a redirection of production from the book publisher to some other producer. In this case Bastiat is right that there is a five-franc advantage to Mr. Protectionist, but it is not the case that “domestic industry...no longer receives the difference.”

Of course, for units between Q_x and Q_z , Mr. Protectionist’s advantage is less than five francs, whereas Goodfellow’s loss is exactly five francs, so there is a net loss to the French economy. The area KEF represents a deadweight loss to the French economy from the substitution of low-cost Belgian iron for high-cost French iron. On these units Bastiat is partially correct on both counts: there is an advantage to French iron producers (albeit not a full five francs), and domestic industry “no longer receives the (full) difference.”

By construction of his essay, Bastiat does not refer to the Q_z to Q_y units that drop from use because of the ban on the importation of Belgian iron. This confers a deadweight loss of EFR on France for

a total deadweight loss of KER. It is also apparent that there is a transfer from French iron consumers to French iron producers of AZKE, which was, of course, Mr. Protectionist's motivation for the embargo. Bastiat's claim is correct—there is a gain for producers, yet the loss borne by consumers outweighs that gain, because a portion of the consumer loss is absorbed in the costs of the newly produced French iron.

Bastiat's exposition poses a problem a bright undergraduate student can grapple with and one that can improve her skills in applying economic analysis. Bastiat's general point holds—and students see more precisely the classical case for free trade.

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