

period from about 1937 to the early 1940s; (4) the dispersion of Institute members in the 1940s and new directions sketched out by Adorno and Horkheimer in *Dialectic of Enlightenment*; (5) the return of the Institute to Germany and its work in Frankfurt during the 1950s and 1960s; (6) the development of critical theory in various ways by Fromm, Lowenthal, Marcuse and others who remained in the USA; (7) the continuation of Institute projects and development of critical theory in Germany by Jürgen Habermas, Oskar Negt, Alfred Schmidt and others in the 1970s and 1980s; (8) contributions to critical theory by younger theorists and scholars currently active in Europe and the USA.

In surveying the field of critical theory, one observes a heterogeneity of theories, theorists and projects loosely connected by commitment to interdisciplinary social theory, and an interest in social critique and transformation, all influenced by the work of theorists like Adorno, Horkheimer, Marcuse, Habermas or others. Critical theorists tend to be critical of empirical and quantitative social theory and more sympathetic to theoretical construction, social critique and social transformation. It continues to be an active, though frequently marginal, tendency of social theory and continues to influence a wide range of disciplines and theorists throughout the world.

DOUGLAS KELLNER
UNIVERSITY OF CALIFORNIA, LOS ANGELES

References

- Horkheimer, M. (1972 [1937]) 'Traditional and critical theory', in *Critical Theory*, New York.
- Horkheimer, M. and Adorno, T.W. (1972 [1947]) *Dialectic of Enlightenment*, New York.
- Kellner, D. (1984) *Herbert Marcuse and the Crisis of Marxism*, London and Berkeley.
- (ed.) (1998) *Herbert Marcuse: Technology, War and Fascism, Collected Papers of Herbert Marcuse, Volume 1*, London and New York.
- Marcuse, H. (1998) *Technology, War and Fascism*, London and New York.
- (2001) *Toward a Critical Theory of Society*, London and New York.
- Neumann, F. (1966) *Behemoth. The Structure and Practice of National Socialism 1933-1944*, New York.
- (1984) *Adorno and the Frankfurt School*, London.
- Kellner, D. (1989) *Critical Theory, Marxism and Modernity*, Baltimore, MD.
- Marcuse, H. (1984) *One-Dimensional Man*, Boston, MA.
- Wiggershaus, R. (1994) *The Frankfurt School*, Cambridge, UK.

SEE ALSO: Habermas; Marx's theory of history and society

FREE TRADE

Free trade refers to an arrangement whereby international trade proceeds without tariffs or quotas on imports, subsidies to exports, or other types of government intervention that serve to alter the volume or composition of trade. When international trade takes place in the presence of such interventions, protection is said to occur. Arguments in favour of free trade typically derive from Ricardo's (1817) theory of comparative advantage, which shows that all nations, even those that are at an absolute disadvantage in the production of all goods, will nevertheless benefit from trade. This benefit takes the form of increased world production due to specialization in production and increased choices in the allocation of goods that may be consumed. More precisely, if social welfare corresponds to the welfare of individuals irrespective of their location, then because free trade guarantees that no production and/or consumption distortions are present, a worldwide perfectly competitive equilibrium yields a globally Pareto-optimal allocation. This conclusion follows directly from the first theorem of welfare economics, the hypotheses of which are satisfied under free trade. Thus, arguments in support of global free trade are primarily based upon its normative properties.

Dating back to the work of Samuelson (1939, 1962), theoretical models illustrating the efficiency gains that arise from free trade have typically been static in nature. While empirical estimates of these efficiency gains have, in a number of instances, been non-trivial, recent theoretical work on the links between trade and economic growth suggest that these static estimates most likely understate, perhaps significantly, the efficiency gains that emanate from free trade. In particular, the removal of trade barriers, be they tariffs or quotas, tends to increase the volume of trade as well as the level of international competition that producers face.

Over time, this in turn eliminates profits that are earned under protection, drives out inefficient producers behind the most efficient producer able to exploit scale economies and produce at a lower per unit cost.

A related source of dynamic gains occurs as increased international trade forces domestic firms to innovate and raises their productivity. These gains occur in order that domestic producers remain competitive with potent international producers. To capture the strength of trade flows, as Grossman and Helpman argue, the removal of trade barriers, by itself, raises the flow of technology from one country to another. As spill-overs raise the productivity of labour, it follows that trade will increase not just an economy's rate of growth as well as its effects stemming from increased growth of output far outweigh the effects from increasing the level of technological spill-overs represent a new argument for the removal of trade barriers.

A third argument offered in support of free trade is one based upon political economy. As much as the benefits of removal of trade barriers are typically diffuse whereas the costs are concentrated, so, to certain industries say, are the costs of trade. Rather than succumb to such a political process, the latter often play a role in the formulation of trade policy. Being formulated and advocated by special interests, rather than succumb to such a process, argue that national welfare would be better served by letting free trade serve as a benchmark without exceptions. Whether the commitment of this sort is positive or not obvious, however.

Despite the general support of free trade, or, rather, the profession does argue one may be warranted. Wherever enough that its actions can affect for certain goods, it may be purely nationalistic, as opposed to a welfare point of view, to improve. In such cases, the imposition of the world price of the import

Frankfurt School, London.
*Social Theory, Marxism and
 D.*

Dimensional Man, Boston,
 the Frankfurt School, Cam-

Marx's theory of history

an arrangement whereby
 needs without tariffs or
 dies to exports, or other
 intervention that serve to
 position of trade. When
 place in the presence of
 action is said to occur.
 free trade typically derive
 theory of comparative
 : that all nations, even
 lute disadvantage in the
 will nevertheless benefit
 fit takes the form of
 on due to specialization
 reased choices in the
 may be consumed. More
 ure corresponds to the
 respective of their loca-
 ade guarantees that no
 mption distortions are
 irectly competitive equi-
 Pareto-optimal alloca-
 lows directly from the
 economics, the hypoth-
 under free trade. Thus,
 global free trade are
 ormative properties.
 rk of Samuelson (1939,
 s illustrating the effi-
 from free trade have
 ature. While empirical
 ncy gains have, in a
 en non-trivial, recent
 nks between trade and
 that these static esti-
 state, perhaps signifi-
 ns that emanate from
 the removal of trade
 or quotas, tends to
 ide as well as the level
 on that producers face.

Over time, this in turn eliminates the economic profits that are earned under protection and so drives out inefficient producers while leaving behind the most efficient producers who are then able to exploit scale economies and therefore produce at a lower per unit cost.

A related source of dynamic efficiency gains occurs as increased international competition forces domestic firms to innovate, which in turn raises their productivity. These innovations may occur in order that domestic producers do not lose market share to foreign producers and/or remain competitive with potentially more efficient international producers. To the extent that trade flows capture the strength of these pressures, as Grossman and Helpman (1991) suggest, the removal of trade barriers, by raising the level of trade, raises the flow of technological spill-overs from one country to another. Since these spill-overs raise the productivity of capital and labour, it follows that trade liberalization will increase not just an economy's level of income, but its rate of growth as well. As the welfare effects stemming from increasing the rate of growth of output far outweigh those stemming from increasing the level of output, increasing technological spill-overs represent an important new argument for the removal of trade barriers.

A third argument offered in support of free trade is one based upon political realities. Inasmuch as the benefits of removing trade barriers are typically diffuse whereas the costs of doing so, to certain industries say, are typically concentrated, the latter often play a larger role in the political process than do the former. If so, then trade policy is being formulated along the line being advocated by special interest groups. Rather than succumb to such pressures, one can argue that national welfare would be enhanced by letting free trade serve as the nation's policy without exceptions. Whether or not political commitment of this sort is possible in practice is not obvious, however.

Despite the general stance of economists in support of free trade, or, failing that, freer trade, the profession does argue one case where protection may be warranted. When a nation is large enough that its actions can affect the world price for certain goods, it may be optimal, from a purely nationalistic, as opposed to a global, welfare point of view, to impose a positive tariff. In such cases, the imposition of a tariff reduces the world price of the import that is subject to it.

The resulting improvement in the terms of trade, that is the value of domestic goods in terms of foreign goods, can sometimes be large enough at the margin to more than offset the production and consumption distortions associated with the tariff. As the tariff is increased from zero say, the marginal benefit declines while the marginal cost rises. The 'optimal tariff' is such that it equates these two values. Along a similar line, it follows that, for export sectors, the 'optimal subsidy' is in fact negative since a tax on exports raises the world price of exports and so again causes an improvement in the terms of trade for the exporting country.

Although the theoretical arguments behind the 'optimal tariff' are clear, in practice such policies may be quite difficult to implement. For one, only a few countries are large enough relative to world markets to be price setters and so be in a position to impose such tariffs. Second, were a country to pursue this policy, it would very likely be subject to retaliation by other large countries thereby triggering a so-called 'tariff war'. In such a case, Johnson (1953-4) has shown that all participants will in fact experience a lower level of welfare than had they chosen free trade initially. Simply put, trade policy among nations with market power corresponds to a prisoners' dilemma. International co-ordination that settles on free trade is the globally (and nationally) preferred outcome.

A second argument offered for protection, but not one that is generally accepted by economists, is based upon the presence of market failures. Examples of this include the so-called 'infant industry' model and the existence of large and persistent differences between urban and rural wage rates in developing countries. In cases such as these, for one reason or another there is a wedge between private and social marginal benefits (or costs) in either production or factor markets. When this occurs, the imposition of a tariff, by raising the price of the import, also raises domestic production of the good. If the production increase raises the social benefits enough to cover the loss of private producer and consumer surpluses, then (again from a purely nationalistic welfare point of view) the tariff may be desirable. However, as Bhagwati (1971) and Corden (1974) have shown, attacking an internal market failure with trade policy is not a first-best response since, in effect, the tariff is adding an additional distortion beyond that due to the

original market failure. Rather, welfare can be increased beyond this second-best solution by correcting the market failure at its source. For example, if marginal social benefits exceed marginal private benefits, then output can be increased by subsidizing production. Of course, if financing the subsidy itself is distorting, the case against using tariffs is weakened. Nevertheless, more often than not the net benefits of the direct approach exceed those of the indirect approach. Thus, it is preferable to adhere to free trade in these cases as well.

Despite the arguments in favour of free trade noted here, global free trade most certainly does not exist. Indeed, even nations that routinely espouse free trade frequently do not behave as such when they perceive their national interests are at stake, or, as often happens, even when the benefits of free trade exceed the costs since the former are diffuse while the latter are concentrated and so impact the political process to a greater extent. In light of this, the increasing number and size of free-trade areas (FTA), such as the European Union (EU) and the North American Free Trade Agreement (NAFTA), has been viewed by some as a positive step in the direction of global free trade. This position reflects the fact that for trade between member nations of the FTA, tariffs are set to zero. However, because there often exist other barriers to trade within FTAs and they do not set tariffs to zero for trade with countries outside of the FTA, whether they in fact improve the prospects for complete world free trade is unclear. If one views the FTA as a single economy, and if the FTA is large enough to influence world prices (as may be the case for both the EU and NAFTA), then, absent co-operation between FTAs, tariff wars could become more likely with the growth of FTAs. If so, then the goal of global free trade would appear to become less likely. Ultimately, whether global free trade ever does come to pass may well depend upon the ability of the World Trade Organization to confront the many competing interests and interest groups that comprise it internally and lobby it externally.

MICHAEL B. LOEWY
UNIVERSITY OF SOUTH FLORIDA

References

- Bhagwati, J.N. (1971) 'The generalized theory of distortions and welfare', in J.N. Bhagwati, R.W. Jones, R.A. Mundell and J. Vanek (eds) *Trade, Balance of Payments and Growth*. Amsterdam.
- Corden, W.M. (1974) *Trade Policy and Economic Welfare*, Oxford.
- Grossman, G.M. and Helpman, E. (1991) *Innovation and Growth in the Global Economy*, Cambridge, MA.
- Johnson, H.G. (1953-4) 'Optimum tariffs and retaliation', *Review of Economic Studies* 21: 142-53.
- Ricardo, D. (1817) *On the Principles of Political Economy and Taxation*, Vol. 1 of *The Works and Correspondence of David Ricardo*, ed. P. Sraffa (1952) Cambridge, UK.
- Samuelson, P.A. (1939) 'The gains from international trade', *Canadian Journal of Economics and Political Science* 5.
- (1962) 'The gains from international trade once again', *Economic Journal* 72.

SEE ALSO: international trade; World Trade Organization

FREEDOM

Freedom in its original meaning in the ancient Greek and Roman languages referred to the status of a man as not being a slave (Mulgan 1984). To be a free man was not to be subject to a master. A reasonable corollary of this is that the free man is his own master. He, and not another, is in charge of his life. This twin idea constitutes the core element in the concept of freedom. The various disputes about the idea of freedom in the philosophical literature arise from a focus on one or other of these two aspects. The first aspect is negative in form – the absence of another's controlling will – while the second is positive in that it refers to the presence of the person's own active will in directing himself. Isaiah Berlin in his famous lecture *Two Concepts of Liberty* (1969) designates these two aspects as two concepts. He admits that they are at no great logical distance from each other but nevertheless thinks that they lead to very different political consequences. Negative freedom supports a liberal society while positive freedom gives sustenance to totalitarianism. However, if we have here not two different concepts, but two interconnected aspects of the one concept, Berlin's claims must be rejected.

If we focus on the negative side, we can see that the generic idea is that of not being constrained by the will of another. Several puzzles arise: first, is it better to describe the constraint as operating on what a person actually wants or on his options (Benn and Weinstein

1971)? If we adopt the former, we to say that, if a person wants to practise his or her Catholic religion free if he or she can do so even if an option is available to him or her. If we adopt the latter formula, it seems that a person has a high degree of freedom if he or she has many unrestricted options even if he or she above all wants to do is not to choose. The way to resolve this problem is to note that what concerns us in respect of freedom is not a person's being able to do what he or she has already chosen to do, but his or her perspective of the person as choosing. Having significant options available is a positive aspect of freedom. The latter is, however, not being in charge of his or her life just how intimately connected to another will and to one's own life really are.

Second, for Berlin and many others, destroying constraint can arise from the actions of other human beings. Some libertarians argue that lack of means or not attributable to others, constitutes freedom: if I am not rich enough to dine at the Ritz, then I am not free to dine at the Ritz. That lack of freedom and lack of means are quite distinct notions is not confused. Others distinguish between negative and effective freedom: I am free to dine at the Ritz but not effectively free (Steiner 2001). Again, the way to deal with this is to note that on the positive side of the coin, the negative aspect emphasizes freedom from subjection to the will of others. On the other hand, the positive aspect emphasizes freedom to. But having more options available extends a person's freedom. So, they expand our potential on the positive side.

Other issues raised on the

- 1 Whether the making of non-trivial penalties for actions against another's will counts as freedom, since a person may be free to do the action (Steiner 1971).
- 2 Whether man-made laws that prohibit particular forms and hence do not describe particular goals are freedom, since they only require the agent to