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George on Free Trade, At Home and Abroad:

The American Economist and Social Philosopher Envisioned a World Unbindered in Production and Exchange

By T. H. BONAPARTE*

ABSTRACT. *Henry George's theories on international trade* are little known though he is respected as an advocate of free trade. He went along with the free traders of his time in three-fourths of his classic, *Protection or Free Trade*. But he went far beyond the others in the last fourth of his book. "True" free trade, he argued, in the debate over *protection* that engaged some of the best minds in *England* and *America*, applied to domestic *production* as well as production for export. Hindrances to trade, like most *tariffs, taxes, subsidies* or other government policies, make products more expensive for the *working people*, worsen their situation by increasing *economic rent* to *resource owners* at the expense of *labor* and *capital*, and misallocate *resources*, maximizing inefficiency and cost. The principle of free trade leads to *justice* and *equal rights*, he held, seeking to advance his vision of a *free society*. Short run and long run solutions to *protectionism* are presented.

I

Introduction

HENRY GEORGE'S THEORIES ON international trade are little known, probably because they are not as controversial as his single tax. In a survey conducted by Pace University on the relevance of the 19th century American economist and social philosopher, 83 percent of the respondents recognized George's contributions in the area of land value taxation, but only 1 percent said he had made a contribution on "free trade."

To George, free trade meant "the natural trade—the trade that goes on in the absence of artificial restrictions."¹ Protection is wrong, morally and economically. George asserted that:

The protection of the masses has in all times been the pretence of tyranny—the plea of monarchy, of aristocracy, of special privilege of every kind. The slave owners justified slavery as protecting the slaves. British misrule in Ireland is upheld on the ground that it is for the protection of the Irish. But, whether under a monarchy or under a republic, is there an instance in the history of the world in which the "protection" of the labouring masses has not meant their oppression? The protection that those who have got the law-making power

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into their hands have given labour, has at best always been the protection that man gives to cattle—he protects them that he may use and eat them.²

One must recall that during the later part of the 19th century and particularly during the 1880s and 1890s, the free trade versus tariff protection debate was in full swing in Europe and the United States. During the first half of the 19th century, the infant-industry argument for tariffs enjoyed a vogue in the United States. The country had just started its industrial development and sought to shelter its young manufacturers from foreign competition. At about the same time, the *distributional* argument was used in Great Britain with opposite intent—to reduce existing tariffs. Just as the United States was moving toward protection, Great Britain was moving toward free trade. The United States had taxed its imports from its very birth as a nation. But its early tariffs, though protective in effect, were chiefly designed to raise revenue for the Federal Government. In those days there was no income tax, and the government relied on excise levies to finance its spending. Tariffs were the most important of those levies.

The free trade movement started in Great Britain as part of a broader assault on the ancient powers of the aristocracy. It sought to end the political hegemony of the rural gentry, who were the chief beneficiaries of the tariffs on imported grain known as the Corn Laws. As in the United States, therefore, tariff policy was entangled in broad constitutional questions, including the issue of parliamentary reform. But the free trade movement also owed intellectual debts to Adam Smith, who made an *allocative* case for free trade fully 50 years before the debates on the Corn Laws; and, David Ricardo, who made the distributive case against the tax on grain. Ricardo contended that the Corn Laws were doubly injurious to the wage earner. First, tariffs raise food prices, reducing the purchasing power of the worker's wage. Second, tariffs *increase land rents* at the expense of business profits, and low profits mean less saving, less investment, and less demand for labor.

Between 1860–1890, a period that had a dramatic effect on Henry George's views on free trade vs. protectionism, American tariffs did not come down as fast or as far as European tariffs in the middle third of the 19th century. After 1860, they rose somewhat further. In 1861, Congress passed the Morrill Tariff Act, giving new protection to the iron and steel industry; and in 1862 and 1864, it approved a sweeping increase in most other duties. After the Civil War, high import duties were instituted that had an awesome protective effect. American tariffs reached a postwar peak with the McKinley Tariff of 1890. Meanwhile, European countries, particularly France and Germany, were very successful, they believed, with protection. Bismarck in 1879 brought forward a new tariff affording substantial protection to industry and agriculture. France followed

Germany in the 1890s, when a coalition of industry and agriculture reversed the low tariff policies of Napoleon III and enacted the famous Meline tariff, to promote industrial development.

This was the context in which Henry George wrote his views on free trade. He was at the time in the minority, certainly against the popular wave of protectionism. The arguments used in his book, *Protection or Free Trade*, published in 1886, were influenced by Adam Smith, the Physiocrats, David Ricardo, and Frederic Bastiat. In particular, an English language translation of Bastiat's book, *Sophisms of Protectionism* was published in the United States in 1881 and, although George makes no mention of Bastiat in *Protection or Free Trade*, he must have read the work of the recognized exponent of free trade at the time.

There is not much on free trade in *Progress and Poverty*, which makes it clear this was of secondary importance to the central thesis of this work; namely the elimination of poverty through land value taxation. Free trade, according to George, cannot in itself solve the basic problem confronting the economy. He noted, for example, that "free trade has enormously increased the wealth of Great Britain without lessening pauperism. It has simply increased rent."³ As George saw it, free trade, without the elimination of the private receipt of ground rents, could do little to eradicate the fundamental problem of inequitable distribution of income and wealth.

II

George's Contribution to the Free Trade Movement

ANY EXAMINATION of George's writings must acknowledge that he made a substantial contribution to the field by writing *Protection or Free Trade*, one that has been little noticed. As we said before, in 1886, it was unconventional to support free trade, and George had few admirers on this subject. In *Protection or Free Trade* George discusses meeting the leader of a Pittsburgh brass band on the train who said:

"Look here, stranger, may I ask *you* a question? I mean no offense, but I'd like to ask you a straight-forward question. Are you a free trader?"

"I am."

"A Real free trader—one who wants to abolish the tariff?"

"Yes, a real free trader. I would have trade between the United States and the rest of the work as free as it is between Pennsylvania and Ohio."

"Give me your hand stranger," said the band leader, jumping up. "I like a man who's out and out."

"Boys," he exclaimed, turning to some of his bandsmen, "here's a sort of man you never saw, here's a real free trader and he ain't ashamed to own it." And when the "boys" had shaken hands with me, very much as they might have shaken hands with the "Living Skeleton" or the "Chinese Giant," "Do you know stranger," the band-master continued, "I've been

hearing of free traders all my life, but you're the first I ever met. I've seen men that other people called free traders, but when it came their turn they always denied it. The most they would admit was that they wanted to trim the tariff down a little, or fix it up better. But they always insisted we must have a tariff, and I'd got to believe that they were no real free traders; that they were only a sort of bugaboo."⁴

But Henry George was not simply a "free trader." He believed that free trade had to be seen in the context of its effects on labor. In this approach, he was different from the other "free traders" of his time, such as Professor W. G. Sumner of Yale and others. In reading *Protection and Free Trade*, one gets the impression that George is saying little that is new on the subject. This is certainly the case for most of the book. Up until chapters 24 and 25, there are the typical arguments against protection and in favor of free trade. George dismisses protection as a universal need, stating:

We cannot stop with protection between state and state, township and township, village and village. If protection be needed between nations, it must be needful not only between political sub-divisions, but between family and family. If nations should never buy of other nations what they might produce at home, the same principle must forbid each family to buy anything it might produce.⁵

In *Protection and Free Trade*, George discusses the importance of trade which he feels enables us to utilize the highest powers of the human factor in production. He makes reference to the point that all men cannot do all things equally well. Men of different nations trade with each other for the same reason that men of the same nation do—because they find it profitable; because they obtain what they want with less labor than they otherwise could. He believed the restriction of importations would lessen productive power and reduce the fund from which all revenues are drawn. George points out the difference between revenue and protective tariffs; discourages protection of "infant industries"; supports the proposition that exports and imports are complementary and to impose any restrictions on the one, necessarily lessens the other; and, identifies the negative effects of protection on American industry.

It would seem that nothing had changed from the era of the 1880s. Lord Peter Bauer, an economist at the London School of Economics, recently wrote an article in *The Wall Street Journal* on "myths of Subsidized Manufacturing." He said:

State support of manufacturing is practically universal in the third world. It is widespread also in the West, but there agriculture also enjoys massive state assistance . . . support of manufacturing takes the form of tariff protection, quantitative restrictions (quotas), direct subsidies and special fiscal concessions. But why should manufacturing be supported at the expense of the rest of the community? . . . The oldest argument is the 'infant industry' which is invalid . . . Another popular argument is that the relatively greater importance of manu-

facturing over agriculture in the West shows that manufacturing is necessary for economic progress. There is nothing in this argument . . . The heavy economic costs of State support of manufacturing is well known . . . it has developed into large-scale economic control and indeed, wholesale politization of economic life . . . second, much of the cost falls on farmers through higher costs of supplies and consumer goods, high interest rates and increased taxes on cash crops.⁶

III

True Free Trade

TODAY, SINCE THE PUBLICATION of *Protection of Free Trade*, all the models show that free trade is beneficial to all participating countries. Each country can escape the confines of its own resource endowment to consume a collection of commodities better than the best it can produce. Why then is it necessary for Peter Bauer to write his recent article in *The Wall Street Journal*? Why do we still hear so much clamor for protective tariffs and trade barriers? The answer is that many fallacious arguments against foreign trade are easily refuted but have a peculiar immunity to logic.

Economists can demolish the protectionists' arguments, but speeches about, "cheap foreign labor," "Japanese invasion," "buy locally-made products," and "free trade causes more poverty" have enormous popular appeal. These speeches also mean that Bauer will have to write another article on "The Arguments against Protection," and that some form of protection will be with us for the foreseeable future. This is especially true for the developing countries that use trade barriers to stimulate domestic employment, to facilitate economic development, and to redistribute income.

It is here that Henry George makes his contribution because he did not see the removal of trade barriers or "custom houses" as the panacea for international trade and economic growth and development. As we said, three quarters of *Protection or Free Trade* refers to the fundamental and traditional arguments espoused by economists from Smith to Lord Peter Bauer. The last quarter of the book deals with what George calls "True Free Trade." He states:

Free trade, in its true meaning, requires not merely the abolition of protection but the sweeping away of all tariffs—the abolition of all restrictions (save those imposed in the interests of public health and morals) on the bringing of things into a country or the carrying of things out of a country. Free trade applies as well to domestic as to foreign trade, and in its true sense requires the abolition of all internal taxes that fall on buying, selling, transporting or exchanging, on the making of any transactions or the carrying on of any business . . . Thus the adoption of *true* free trade involves the abolition of all indirect taxation of whatever kind, and the resort to direct taxation for all public revenues.⁷

The freeing of trade, according to George, is beneficial to the country because it is also freeing production. Therefore, we should not tax anyone who adds to the wealth of the country by bringing valuable goods and services into it, and we should not tax anyone who produces within that country valuable goods and services. Therefore, free trade requires that we not only abolish indirect taxes, but all direct taxes as well. There should be no tax upon the production, accumulation or possession of wealth, leaving everyone free to make, exchange, give, spend or bequeath. The only taxes by which in accordance with the free-trade principle revenue can be raised are taxes on land values. George believed that:

True free trade, in short, requires that the active factor of production, labor, shall have free access to the passive factor of production, land. To secure this, all monopoly of land must be broken up and the natural elements must be secured by the treatment of the land as the common property in usufruct of the whole people.⁸

George's main point is that he had seen that the gradual reduction of trade barriers and the movement towards free trade in England had little effect on the welfare and development of the people. Richard Cobden and John Bright, the British free-traders, made an invaluable contribution by persuading Great Britain to replace its protective tariffs with a revenue tariff, to be "a free trade country" in 1846. However, labor remained degraded and underpaid, and the improvements that were made for labor were not traceable to the abolition of protection, but to trade unions. George asked the question; "How will free trade affect the working man?" The answer he received was that "Free trade will increase wealth and reduce the cost of commodities." This was not enough—George wanted the workingman to share in the gain. He had seen the cost of commodities greatly reduced without the workingman finding it any easier to live. This was the weakness of free trade, that the advantages did not reach the workingman. He, therefore, believed that the free trade movement had not been played out to its final conclusion. It should have dealt with the removal of all injustices, the removal of all direct and indirect taxes, save one, on land values. One sees in George a fundamental need to help human kind—free trade was a tool to achieve this basic objective. As he said:

He who follows the principle of free trade to its logical conclusion can strike at the very point of protection; can answer every question and meet every objection, and appeal to the surest of instincts and the strongest of motives. He will see in free trade not a mere fiscal reform, but a movement which has for its aim and end nothing less than the abolition of poverty, and of the vice and crime and degradation that flow from it, by the restoration to the disinherited of their natural rights and the establishment of society upon the basis of justice. He will catch the inspiration of a cause great enough to live for and to die for, and be moved by an enthusiasm that he can evoke in others.⁹

IV

The World That Might Have Been

OH, HOW WE WISH George's ideas were implemented at that time, in 1890; we would have had a different world; one that is free from all rigidities and restrictions "with justice for all." Today, things have grown worse and it is even more difficult to think realistically of free trade being implemented in the world of today. We have more trade barriers now than in 1890 and there are probably less "free traders" on trains going to Pittsburgh than in 1890.

For example, let's look at agriculture. American farmers traditionally have been strong advocates of free trade. Recent years have seen a dramatic slowdown in world trade in farm products. In stagnant or slowly expanding markets there are strong pressures, on the one hand, for subsidies and other measures to promote exports at any cost, and on the other hand, for protection from world markets. The United States has tried to protect its trading position against these pressures. Unfortunately, the current international trading rules do not give us an opportunity to reap the full benefits of our clear comparative advantage in agriculture. And even these inadequate rules may be severely circumscribed by new protectionist measures and proposals that would perpetrate and expand the use of export subsidies.

W. Allen Wallis, the U.S. Under Secretary of State for Economic Affairs, before the House of Representatives Committee on Agriculture on October 18, 1983, said:

We generally think of protectionism in terms of measures such as tariffs or quotas on imports. Equally important and of great concern today are export subsidies, which also threaten to close markets to our products. Subsidies force U.S. farmers to compete with foreign governments, not foreign farmers. Unlike tariffs or quotas, export subsidies do not necessarily reduce total trade, but they do lead to distortions within the exporting country and within the world markets as importers shift to lower-priced, subsidizing suppliers . . . High price supports lead to high profits for large, capital-intensive farmers, affecting the demand for farm machinery and for other inputs into the agricultural sector. Diversion of resources to the agricultural sector cuts profits in the non-agricultural sector.¹⁰

If Henry George were alive today he would probably say: "I told you so! We should not have started the use of export subsidies, which only create inefficiencies, and, more important, permit land monopolies to prosper and small farmers to suffer—there is no *justice* for the working-man in today's system."

Are Henry George's views on international trade relevant today? The answer is a resounding "Yes!" Primarily because George's views on *Free Trade or Protection* were not restricted to international trade, but also dealt with how best to get economies to function in a way that would improve the quality of life in

the world. The problem was not free trade vs. protectionism—this was irrelevant then as it is today. For whichever side “wins,” we will all lose. The struggle will continue to go on for a time, but it will not decide what kind of world we are to have.

We need a new concept of global economic growth to deal with the present situation—one that incorporates the gradual removal of some barriers, such as, export subsidies, quotas, etc; one that, at least, recognizes the problems of the developing countries and the European Common Market and other economic integration entities; one that strives to bring equality into international trade.

Realistically, considering the current trade talks with the Japanese; the Group of 77's interest in protectionism; the debt problems of Mexico, Brazil, Argentina, Venezuela, and others; the strength or weakness of the U.S. dollar; worldwide unemployment; the record inflation rates in most countries, and the public debts of the United States and many other countries today, it is important for America to take the lead in a major program for world trade expansion.

We now live in an interdependent world. It is a fact that the irreversible trend is toward increasing economic interdependence. But we will delude ourselves into thinking that protection can be completely overthrown in America by a movement along the lines of the 1840s “Cobden Club” in England. Even George did not think it was possible in 1886.¹¹ What we have to do is to address the problem of shrinking world markets. We need to develop short-run and long-run solutions to the problem.¹²

In the short run, we should:

1. Abolish tariffs and non-tariff barriers in certain key areas, such as textiles and automobiles. This should be the approach rather than offering across the board solutions. It would make it easier to see the results and measure their impact on the rest of the economy.

2. Reduce the charges made on imports—deposits, port taxes, administrative fees. This is an area where quick progress is possible because of the complexity and undisciplined nature of these charges. It will go a long way to establishing good will among governments.

3. Agree on principles governing the case of protective quotas. Quotas are unfortunate, but less so than other import devices. Since contrived uncertainty is the worst business deterrent, flat quotas at least let businessmen know where they stand. But an understanding to pare them down should be pressed.

4. Place limitations on the amount of tariff increases permitted when raw materials become manufactured products before being exported. Duties tend to rise steeply after processing. By curbing that escalation, the chance for broader production and more trade would rise.

5. Consider granting extra industrial concessions in return for agreement by other countries to buy more American farm goods. This would benefit most nations in the end because American farm productivity could be an overall plus for the world while access to the United States markets would create more jobs abroad.

In the long run, the developing countries must be able to get firm assurance of steady access to the markets of the advanced countries. We have to be careful because the newly industrial countries (NICs) would flood the advanced countries with their products. However, whatever we promise, we must be prepared to be firm and act with the highest integrity. We have to be reliable trading partners.

All the so-called "first" world countries should join in arranging loans over and above the debt repayment needs of "third" world countries. This is important for long run amiable relations and can take the form of mixed government and commercial bank loans.

Probably, the greatest help in the long run has to come from the private sector—the multinational corporations (MNCs). The United States is far behind Europe and the Japanese in terms of investment in the LDCs. Currently, about three quarters of U.S. investment in the LDCs is in Latin America and this amounts to only 10 percent of the total U.S. investment abroad. The Japanese investment in developing countries amounts to 60 percent of their total investment. It is interesting to note that the flow of investment to developing countries is declining, with 40 percent in ten countries—Argentina, Brazil, Hong Kong, India, Malaysia, Mexico, Peru, Phillipines, Singapore, and Trinidad. The United States has become an importer of capital. Our share of direct investment, according to the I.M.F. figures, has fallen to less than 28 percent in the 1980s, from more than 60 percent in the late 1960s.¹³

We need to encourage more direct investment abroad, by reducing the taxes for U.S. MNCs. The notion that this would send more jobs abroad was dismissed by Henry George in 1886¹⁴ and by others since. It makes more profits for stockholders and increases employment at home. U.S. multinationals can also help in transferring technology and skills which would perhaps instill a more positive attitude towards the work ethic.¹⁵

The government officials in the developing world do not want to take away the industries in the industrialized world. Most of them do not want to be Marxists anymore—they don't want to go to the Soviets. They are saying to those in the industrialized world: "Today, you need us as much as we need you—you can live without us and we can live without you with our belts tightened, but we both can do better. You need customers. We need to develop our human re-

sources, which will give us the strength to deal with the other injustices in our society." This statement is related to the current situation, but if Henry George were alive today, he would agree with it.

V

Summary and Conclusion

WE HAVE TRAVELED through history with Henry George. We discussed some of George's fundamental ideas as stated in *Progress and Poverty*. We looked at his influence or impact abroad and discovered that indeed, he still has a tremendous following. At the turn of the century, it was much greater even than that of Marx. Today, many countries have adopted land value taxation—South Africa, Australia, Taiwan, Sweden, Denmark, Jamaica, Barbados, New Zealand, India. In the United States, Hawaii has also adopted this system; however, Pennsylvania (Pittsburgh, Scranton, Harrisburg, McKeesport, and New Castle) has made the greatest strides to implement George's ideas.¹⁶

George's views on international trade were mainly in favor of free trade. Indeed, he was in favor of "freedom" and, therefore, any restrictions on things moving in and out of a country would be intolerable. Furthermore, he believed in justice, compassion, ethics, and fair play. He was for human rights and against self-interest and corruption. He was for equality!

Here is the conclusion of the whole matter: that we should do unto others as we would have them do to us—that we should respect the rights of others as scrupulously as we would have our own rights respected, is not a mere counsel of perfection to individuals, but it is the law to which we must conform social institutions and national policy if we would secure the blessings of abundance and peace.¹⁷

Notes

1. Henry George, *Protection or Free Trade* (New York: Robert Schalkenbach Foundation, 1980), p. 13.
2. *Ibid.*, p. 21.
3. George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1979). p. 254.
4. George, *Protection or Free Trade*, pp. 313–14.
5. *Ibid.*, p. 44.
6. Peter Bauer, "Myths of Subsidized Manufacturing," *Wall Street Journal*, December 26, 1984, p. 10.
7. George, *Protection or Free Trade*, p. 286.
8. *Ibid.*, p. 289.
9. *Ibid.*, p. 317.
10. W. Allen Wallis, Statements before the House of Representatives Committee on Agriculture, October 18, 1983, *Current Policy*, No. 519.
11. George, *Protection or Free Trade*, p. 233.

12. See Charles A. Cerami, "We Need a Marshall Plan For the 80s," *New York Times*, January 20, 1985, business section, p. 3.
13. See T. H. Bonaparte and N. K. Sethi, "Patterns of International Business," *Journal of Management, Business and Economics* Vol. 6, No. 3 (1980).
14. George, *Protection or Free Trade*, Chapter 16.
15. See T. H. Bonaparte, "Multinational Corporations and Cultures in Liberia," *American Journal of Economics and Sociology* (July, 1979).
16. Gurney Breckenfeld, "Higher Taxes That Promote Development," *Fortune*, (August 8, 1983), pp. 68-71.
17. George, *Protection or Free Trade*, p. 332.

The Next Generation of Social Science Scholars

SOCIAL SCIENTISTS INTERESTED in promoting research in their fields will not want to miss a paper published in *Science*, Vol. 241 (September 10, 1988, pp. 1740ff). It is the presidential address of Sheila E. Widnall, Abby Rockefeller Mauze Professor of Aeronautics and Astronautics at the Massachusetts Institute of Technology. Professor Widnall spoke at the American Association for the Advancement of Science's annual meeting.

Professor Widnall pointed out that the projections of a decrease in U.S. graduate students attaining Ph.D. degrees would show a more severe drop if account were taken of the percentages of women and other minority students and of foreign students who will be in graduate schools.

Summarizing graduate student surveys, she notes that minority students find the Ph.D. training experience particularly stressful, hence too many are lost in the process. Students have to be weaned from professorial support into becoming independent scholars.

This struck us because it coincides with our experience over the past five decades. At the outset we decided that all students, and particularly minority students, would receive appropriate treatment. We would not do their work for them, because their hiring and promotion would depend in part on their demonstrations of scholarship, but we would encourage them to eliminate deficiencies in their work. We have been careful to point out the positive aspects of their work before we went into the negative ones. When a revision wasn't forthcoming, we sent encouraging notes. We found nice ways to present criticism that otherwise might be devastating.

Not many of the country's universities and colleges have the facilities for the socialization of graduate students that Columbia University has. The late Frank Tannenbaum organized 18 of his colleagues into a group that fostered several score university seminars in their fields of interest, inviting specialists from