

## CHAPTER XI.

### THE HOME MARKET AND HOME TRADE.

*We should keep our own market for our own producers,* seems by many to be regarded as the same kind of a proposition as, *We should keep our own pasture for our own cows,* whereas, in truth, it is such a proposition as, *We should keep our own appetites for our own cookery,* or, *We should keep our own transportation for our own legs.*

What is this home market from which protectionists tell us we should so carefully exclude foreign produce? Is it not the home demand—the demand for the satisfaction of our own wants? Hence the proposition that we should keep our home market for home producers is simply the proposition that we should keep our own wants for our own powers of satisfying them. In short, to reduce it to the individual, it is that we ought not to eat a meal cooked by another, since that would deprive us of the pleasure of cooking a meal for ourselves, or make any use of horses or railways because that would deprive our legs of employment.

A short time ago English protectionists (for protection is far from dead in England) were censuring the government for having given large orders for powder to German instead of to English producers. It turned out that the Germans were making a new powder called "cocoa," which in heavy guns gives great velocity with low pressure, and with which all the Continental powers had at once provided themselves. Had the English government refused to buy from foreign producers, English ships, in the event of war, which then seemed imminent, would have been placed at a serious disadvantage.

Now, just as the policy of reserving home markets for home producers would in war put a country which should adhere to it

at a great disadvantage—even to the extent, if fully carried out, of restricting the country that does not produce coal to the use of sailing-ships, and compelling the country that yields no iron to fight with bows and arrows—so in all the vocations of peace does this policy involve like disadvantages. Strictly to reserve our home market for home producers would be to exclude ourselves from participation in the advantages which natural conditions or the peculiar skill of their people give to other countries. If bananas will not grow at home we must not eat bananas. If india-rubber is not a home production we must not avail ourselves of its thousand uses. If salt can be obtained in our country only by evaporating sea-water we must continue so to obtain our salt, although in other countries nature has performed this work and provided already crystallized salt in quantities sufficient not only for their people, but for us too. Because we cannot grow the cinchona-tree we must shake with ague and die from malarial diseases, or must writhe in agony under the oculist's knife because the beneficent drug that gives local insensibility is not a home production. And so with all those products in which the peculiar development of industry has enabled the people of various countries to excel. To reserve our home market to home production is to limit the world from which our wants may be supplied to the bounds of our own country, how little soever that may be. And to place any restrictions upon importations is, in so far as they operate, to deprive ourselves of opportunities to satisfy our wants.

It may be to the interest of a shopkeeper that the people of his neighborhood should be prohibited from buying from any one but him, so that they must take such goods as he chooses to keep, at such prices as he chooses to charge, but who would contend that this was to the general advantage? It might be to the interest of gas-companies to restrict the number and size of windows, but hardly to the interest of a community. Broken limbs bring fees to surgeons, but would it profit a municipality to prohibit the removal of ice from sidewalks in order to

encourage surgery? Yet it is in such ways that protective tariffs act. Economically, what difference is there between restricting the importation of iron to benefit iron-producers and restricting sanitary improvements to benefit undertakers?

To attempt to make a nation prosperous by preventing it from buying from other nations is as absurd as it would be to attempt to make a man prosperous by preventing him from buying from other men. How this operates in the case of the individual we can see from that practice which, since its application in the Irish land agitation, has come to be called "boycotting." Captain Boycott, upon whom has been thrust the unenviable fame of having his name turned into a verb, was in fact "protected." He had a protective tariff of the most efficient kind built around him by a neighborhood decree more effective than act of Parliament. No one would sell him labor, no one would sell him milk or bread or meat or any service or commodity whatever. But instead of growing prosperous, this much-protected man had to fly from a place where his own market was thus reserved for his own productions. What protectionists ask us to do to ourselves in reserving our home market for home producers, is in kind what the Land Leaguers did to Captain Boycott. They ask us to boycott ourselves.

In order to convince us that this would be for our benefit, no little ingenuity has been expended. It is asserted (1) that restrictions on foreign trade are beneficial because home trade is more profitable than foreign trade, (2) that even if these restrictions do compel people to pay higher prices for the same commodities, the real cost is no greater, and (3) that even if the cost is greater they get it back again.

Strangely enough, the first of these propositions is fortified by the authority of Adam Smith. In Book II., Chapter V., of "The Wealth of Nations," occurs this passage:

The capital which is employed in purchasing in one part of the country in order to sell in another the produce of the industry of that country,

generally replaces by every such operation two distinct capitals that had both been employed in the agriculture or manufactures of that country, and thereby enables them to continue that employment. . . . The capital which sends Scotch manufactures to London, and brings back English corn and manufactures to Edinburgh, necessarily replaces by every such operation two British capitals which had both been employed in the agriculture or manufactures of Great Britain.

The capital employed in purchasing foreign goods for home consumption, when this purchase is made with the produce of domestic industry, replaces, too, by every such operation, two distinct capitals : but one of them only is employed in supporting domestic industry. The capital which sends British goods to Portugal, and brings back Portuguese goods to Great Britain, replaces by every such operation only one British capital. The other is a Portuguese one. Though the returns, therefore, of the foreign trade of consumption should be as quick as those of the home trade, the capital employed in it will give but one-half the encouragement to the industry or productive labor of the country.

This astonishing proposition, of which Adam Smith never seemed to see the significance,<sup>13</sup> is one of the inconsistencies into which he was led by his abandonment of the solid ground from which labor is regarded as the prime factor in production for that from which capital is so regarded—a confusion of thought which has ever since befogged political economy. This passage is quoted approvingly by protectionist writers, and made by them the basis of assertions even more absurd, if that be possible. Yet the fallacy ought to be seen at a glance. It is of the same nature as the Irishman's division, "Two for you two,

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<sup>13</sup> In the next paragraph Adam Smith goes on to carry this proposition to an unconscious *reductio ad absurdum*. He says:

"A capital therefore employed in the home trade will sometimes make twelve operations, or be sent out and returned twelve times, before a capital employed in the foreign trade of consumption has made one. If the capitals are equal, therefore, the one will give four-and-twenty times more encouragement and support to the industry of the country than the other."

This is just such a proposition as that an innkeeper who permits his guests to stay with him only one day can, with equal facilities, furnish twelve times as much entertainment to man and beast as can the innkeeper who permits each guest to stay with him twelve days.

and two for me, too," and depends upon the introduction of a term "British," which includes in its meaning two of the terms previously used, "English" and "Scotch." If we substitute for the terms used by Adam Smith other terms of the same relation we may obtain, with equal validity, such propositions as this: If Episcopalians trade with Presbyterians, two profits are made by Protestants; whereas when Presbyterians trade with Catholics only one profit goes to Protestants. Therefore, trade between Protestants is twice as profitable as trade between Protestants and Catholics.

In Adam Smith's illustration there are two quantities of British goods, one in Edinburgh and one in London. In the domestic trade which he supposes, these two quantities of British goods are exchanged; but if the Scotch goods be sent to Portugal instead of to England and Portuguese goods brought back, only one quantity of British goods is exchanged. There will be only one-half the replacement in Great Britain, but there has been only one-half the displacement. The Edinburgh goods which have been sent away have been replaced with Portuguese goods; but the London goods have not been replaced with anything, because they are still there. In the one case twice the amount of British capital is employed as in the other, and consequently double returns show equal profitableness.

The arguments by which it is attempted to prove that it is no hardship to a people to be forced to pay higher prices to home producers for goods they can more cheaply obtain by importation are of no better consistency. The real cost of commodities, it is declared, is not to be measured by their price but by the labor needed to produce them, and hence, as it is put, though higher wages, interest, taxes, etc., may make it impossible to produce certain things for as low a price in one country as in another, their real cost is no greater, if no greater amount of labor is needed for their production, and thus a

nation loses nothing by shutting out the cheaper foreign products.

The fallacy is in the assumption that equal amounts of labor always produce equal results. A first-class portrait-painter may be able to do whitewashing with no more labor than a professional whitewasher, but it would nevertheless be a loss to him to take time in which he might earn the wages of a portrait-painter in order to do whitewashing that he might get done for the wages of a whitewasher. Nor would his loss be the less real if he chose to average his income so as to credit himself with as much for whitewashing as for portrait-painting. In the same way, it is not the amount of labor required to produce a thing here or there which determines whether it can be more profitably obtained by home production or by importation, but the relation between what the same labor could produce in that and in other employments. This is shown by price. Though as between different times and places the prices of things do not accurately indicate the relative quantity and quality of labor necessary to obtain them, they do in the same time and place. If at any given time, in any given place, a certain commodity cannot be produced for as low a price as it can be imported for, this is not necessarily proof that it would take more labor to produce it in the given place, but it is proof that labor there and then can be more profitably employed. And when industry is diverted from more profitable to less profitable occupations, though the capital and labor so transferred may be compensated by duties or bounties, there must be a loss to the people as a whole.

The argument that the higher prices which the tariff enables certain home producers to charge involve no loss to those who pay them is thus put by Horace Greeley (" Political Economy," p. 150):

I never made any iron, nor had any other than a public, general interest in making any, while I have bought and used many thousands of dollars'

worth, in the shape of power-presses, engines, boilers, building-plates, etc. It is to my interest, you say, to have cheap iron. Certainly; but I buy iron, not (ultimately and really) with money, but with the product of my labor—that is, with newspapers; and I can better afford to pay \$70 per ton for iron made by men who can and do buy American newspapers than take it for \$50 of those who rarely see and never buy one of my products. The money price or the American iron may be higher, but its real cost to me is less than that of the British iron. And my case is that of the great body of American farmers and other producers of exchangeable wealth.

The fallacy is in the assumption that the ability of certain persons to buy American newspapers depends upon their making of iron, whereas it depends upon their making of something. Newspapers are not bought with iron, nor do newspaper publishers buy iron with newspapers. These transactions are effected with money, which represents no single form of wealth, but value in all forms. If, instead of making iron, the men to whom Mr. Greeley refers had made something else which was exchanged for British iron, Mr. Greeley's purchase of this foreign iron would have been just as truly an exchange of his products for theirs. The \$20 per ton additional which the tariff compelled him to pay for iron represented a loss to him which was not a gain to any one else. For on Mr. Greeley's supposition that the tariff was necessary to give American iron-makers the same remuneration such labor could have obtained in other pursuits, its effect was simply to compel the expenditure of \$70 worth of labor to obtain what otherwise could have been obtained by \$50 worth of labor. To do this was necessarily to lessen the wealth of the country as a whole, and to reduce the fund available for the purchase of newspapers and other articles. This loss is as certain and is of the same kind as if Mr. Greeley had been compelled to employ portrait-painters to do whitewashing.

The more popular forms of this argument that protection costs nothing, hardly need analysis. If, as is asserted, consumers lose nothing in the higher prices the tariff compels

them to pay, because these prices are paid to our own people, then producers would lose nothing if compelled to sell to their fellow-citizens below cost. If workmen are necessarily compensated for high-priced goods by the increased demand for their labor, then manufacturers would be compensated for high-priced labor by the increased demand for their goods. In short, on this reasoning it makes no difference to anybody whether the price of anything is high or low. When farmers complain of the high charges of railroads, they are making much ado about nothing; and workmen are taking needless trouble when they demand an increase of wages, while employers are quite as foolish when they try to cut wages down.