

CHAPTER XV.

OF ADVANTAGES AND DISADVANTAGES AS REASONS FOR PROTECTION.

We have seen that low wages do not mean low cost of production, and that a high standard of wages, instead of putting a country at a disadvantage in production, is really an advantage. This disposes of the claim that protection is rendered necessary by high wages, by showing the invalidity of the first assumption upon which it is based. But it is worth while to examine the second assumption in this claim — that production is determined by cost, so that a country of less advantages cannot produce if the free competition of a country of greater advantages be permitted. For while we are sometimes told that a country needs protection because of great natural advantages that ought to be developed, we are at other times told that protection is needed because of the sparseness of population, the want of capital or machinery or skill, or because of high taxes or a high rate of interest,¹⁸ or other conditions which, it may be, involve real disadvantage.

But without reference to the reality of the alleged advantage or disadvantage, all these special pleas for protection are met when it is shown, as it can be shown, that whatever be its

¹⁸ The higher rate of interest in the United States than in Great Britain has until recently been one of the stock reasons of American protectionists for demanding a high tariff. We do not hear so much of this now that the rate in New York is as low as in London, if not lower, but we hear no less of the need for protection. It is hardly necessary in this discussion to treat of the nature and law of interest, a subject which I have gone over in "Progress and Poverty." It may, however, be worth while to say that a high rate of interest where it does not proceed from insecurity, is not to be regarded as a disadvantage, but rather as evidence of the large returns to the active factors of production, labor and capital—returns which diminish as rent rises and the landowner gets a larger share of their produce for permitting labor and capital to work.

advantages or disadvantages for production a country can always increase its wealth by foreign trade.

If we suppose two countries each of which is, for any reason, at a decided disadvantage in some branch of production in which the other has a decided advantage, it is evident that the free exchange of commodities between them will be mutually beneficial, by enabling each to make up for its own disadvantage by availing itself of the advantage of the other, just as the blind man and the lame man did in the familiar story. Trade between them will give to each country a greater amount of all things than it could otherwise obtain with the same quantity of labor. Such a case resembles that of two workmen, each having as to some things skill superior to the other, and who, by working together, each devoting himself to that part for which he is the better fitted, can accomplish more than twice as much as if each worked separately,

But let us suppose two countries, one of which has advantages superior to the other for all the productions of which both are capable. Trade between them being free, would one country do all the exporting and the other all the importing? That, of course, would be preposterous. Would trade, then, be impossible? Certainly not. Unless the people of the country of less advantages transferred themselves bodily to the country of greater advantages, trade would go on with mutual benefit. The people of the country of greater advantages would import from the country of less advantages those products as to which the difference of advantage between the two countries was least, and would export in return those products as to which the difference was greatest. By this exchange both peoples would gain. The people of the country of poorest advantages would gain by it some part of the advantages of the other country, and the people of the country of greatest advantages would also gain, since, by being saved the necessity of producing the things as to which their advantage was least, they could concentrate their energies upon

the production of things in which their advantage was greatest. This case would resemble that of two workmen of different degrees of skill in all parts of their trade, or that of a skilled workman and an unskilled helper. Though the workman might be able to perform all parts of the work in less time than the helper, yet there would be some parts in which the advantage of his superior skill would be less than in others; and as by leaving these to the helper he could devote more time to those parts in which superior skill would be most effective, there would be, as in the former case, a mutual gain in their working together.

Thus it is that neither advantages nor disadvantages afford any reason for restraining trade.¹⁹ Trade is always to the benefit of both parties. If it were not there would be no disposition to carry it on.

And thus we see again the fallacy of the protectionist contention that if it takes no more labor to produce a thing in our country than elsewhere, we shall lose nothing by shutting out the foreign product, even though we have to pay a higher price for the home product. The interchange of the products of labor does not depend upon differences of absolute cost, but of comparative cost. Goods may profitably be sent from places where they cost more labor to places where they cost less labor, provided (and this is the only case in which they ever will be so

¹⁹ In point of fact there is no country which as to all branches of production can be said to have superior advantages. The conditions which make one part of the habitable globe better fitted for some productions, unfit it for others, and what is disadvantage for some kinds of production, is generally advantage for other kinds. Even the lack of rain which makes some parts of the globe useless to man, may, if invention ever succeeds in directly utilizing the power of the sun's rays, be found to be especially advantageous for certain parts of production. The advantages and disadvantages that come from the varying density of population, the special development of certain forms of industry, etc., are also largely relative. The most positive of all advantages in production—that which most certainly gives superiority in all branches, is that which arises from that general intelligence which increases with the increase of the comfort and leisure of the masses of the people, that is to say, with the increase of wages.

sent) that a still greater difference in labor-cost exists as to other things which the first country desires to obtain. Thus tea, which Horace Greeley was fond of referring to as a production that might advantageously be naturalized in the United States by a heavy duty, could undoubtedly be produced in the United States at less cost of labor than in China, for in transportation to the seaboard, packing, etc., we could save upon Chinese methods. But there are other things, such as the mining of silver, the refining of oil, the weaving of cloth, the making of clocks and watches, as to which our advantage over the Chinese is enormously greater than in the growing of tea. Hence, by producing these things and exchanging them directly or indirectly for Chinese tea, we obtain, in spite of the long carriage, more tea for the same labor than we could get by growing our own tea.

Consider how this principle, that the interchange of commodities is governed by the comparative, not the absolute, cost of production, applies to the plea that protective duties are required on account of home taxation. It is of course true that a special tax placed upon any branch of production puts it at a disadvantage unless a like tax is placed upon the importation of similar productions. But this is not true of such general taxation as falls on all branches of industry alike. As such taxation does not alter the comparative profitableness of industries it does not diminish the relative inducement to carry any of them on, and to protect any particular industry from foreign competition on account of such general taxation is simply to enable those engaged in it to throw off their share of a general burden.

A favorite assumption of American protectionists is, or rather has been (for we once heard much more of it than now), that free trade is a good thing for rich countries but a bad thing for poor countries—that it enables a country of better-developed industries to prevent the development of industry in other countries, and to make such countries tributary to itself. But it follows from the principle which, as we have seen,

causes and governs international exchanges, that for any country to impose restrictions on its foreign commerce on account of its own disadvantages in production is to prevent such amelioration of those disadvantages as foreign trade would bring. Free trade is voluntary trade. It cannot go on unless to the advantage of both parties, and, as between the two, free trade is relatively more advantageous to the poor and undeveloped country than to the rich and prosperous country. The opening up of trade between a Robinson Crusoe and the rest of the world would be to the advantage of both parties. But relatively the advantage would be far greater to Robinson Crusoe than to the rest of the world.

There is a certain class of American protectionists who concede that free trade is good in itself, but who say that we cannot safely adopt it until all other nations have adopted it, or until all other nations have come up to our standard of civilization; or, as it is sometimes phrased, until the millennium has come and men have ceased to struggle for their own interests as opposed to the interests of others. And so British protectionists have now assumed the name of "Fair Traders." They have ceased to deny the essential goodness of free trade, but contend that so long as other countries maintain protective tariffs Great Britain, in self-defense, should maintain a protective tariff too, at least against countries that refuse to admit British productions free.

The fallacy underlying most of these American excuses for protection is that considered in the previous chapter—the fallacy that the country of low wages can undersell the country of high wages; but there is also mixed with this the notion to which the British fair traders appeal—the notion that the abolition of duties by any country is to the advantage, not of the people of that country, but of the people of the other countries that are thus given free access to its markets. "Is not the fact that British manufacturers desire the abolition of our protective tariff a proof that we ought to continue it?" ask

American protectionists. "Is it not a suicidal policy to give foreigners free access to our markets while they refuse us access to theirs?" cry British fair traders.

All these notions are forms of the delusion that to export is more profitable than to import, but so widespread and influential are they that it may be well to devote a few words to them. The direct effect of a tariff is to restrain the people of the country that imposes it. It curtails the freedom of foreigners to trade only through its operation in curtailing the freedom of citizens to trade. So far as foreigners are concerned it only indirectly affects their freedom to trade with that particular country, while to citizens of that country it is a direct curtailment of the freedom to trade with all the world. Since trade involves mutual benefit, it is true that any restriction that prevents one party from trading must operate in some degree to the injury of another party. But the indirect injury which a protective tariff inflicts upon other countries is diffused and slight, as compared with the injury it inflicts directly upon the nation that imposes it.

To illustrate: The tariff which we have so long maintained upon iron to prevent our people from exchanging their products for British iron has unquestionably lessened our trade with Great Britain. But the effect upon the United States has been very much more injurious than the effect upon Great Britain. While it has lessened our trade absolutely, it has lessened the trade of Great Britain only with us. What Great Britain has lost in this curtailment of her trade with us she has largely made up in the consequent extension of her trade elsewhere. For the effect of duties on iron and iron ore and of the system of which they are part, has been so to increase the cost of American productions as to give to Great Britain the greater part of the carrying trade of the world, for which we were her principal competitor, and to hand over to her the trade of South America and of other countries, of which, but for this, we should have had the largest share.

And in the same way, for any nation to restrict the freedom of its own citizens to trade, because other nations so restrict the freedom of their citizens, is a policy of the "biting off one's nose to spite one's face" order. Other nations may injure us by the imposition of taxes which tend to impoverish their own citizens, for as denizens of the world it is to our real interest that all other denizens of the world should be prosperous. But no other nation can thus injure us so much as we shall injure ourselves if we impose similar taxes upon our own citizens by way of retaliation.

Suppose that a farmer who has an improved variety of potatoes learns that a neighbor has wheat of such superior kind that it will yield many more bushels to the acre than that he has been sowing. He might naturally go to his neighbor and offer to exchange seed-potatoes for seed-wheat. But if the neighbor while willing to sell the wheat should refuse to buy the potatoes, would not our farmer be a fool to declare, "Since you will not buy my superior potatoes I will not buy your superior wheat!" Would it not be very stupid retaliation for him to go on planting poorer seed and getting poorer crops?

Or, suppose, isolated from the rest of mankind, half a dozen men so situated and so engaged that mutual convenience constantly prompts them to exchange productions with one another. Suppose five of these six to be under the dominion of some curious superstition which leads them when they receive anything in exchange to burn one-half of it up before carrying home the other half. This would indirectly be to the injury of the sixth man, because by thus lessening their own wealth his five neighbors would lessen their ability to exchange with him. But, would he better himself if he were to say: "Since these fools will insist upon burning half of all they get in exchange I must, in self-defense, follow their example and burn half of all I get"?

The constitution and scheme of things in this world in which we find ourselves for a few years is such that no one can do

either good or evil for himself alone. No one can release himself from the influence of his surroundings, and say, "What others do is nothing to me;" nor yet can any one say, "What I do is nothing to others." Nevertheless it is in the tendency of things that he who does good most profits by it, and he who does evil injures, most of all, himself. And those who say that a nation should adopt a policy essentially bad because other nations have embraced it are as unwise as those who say, Lie, because others are false; Be idle, because others are lazy; Refuse knowledge, because others are ignorant.