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The Outlook for Free Trade

By GLENN E. HOOVER

THE AVERAGE AMERICAN of today probably knows less about foreign trade than did his more literate ancestors. Whether or not the Congress, by "protective" tariffs, should restrict our freedom to buy foreign goods was, for many generations, a question of general interest. However, for some years, both our major political parties have agreed that import duties should be levied at rates which would "equalize the costs of production at home and abroad." By agreeing on this idiotic and unworkable formula, the tariff question has been "taken out of politics" and the voters have concentrated on the current trivia. With important issues removed from political controversy, the voters have considered such questions as the significance of Al Smith's brown derby, Wendell Willkie's Indiana accent, and the youth and stature of Governor Dewey.

Serious thinking about the tariff is also hampered by our ignorance of the prevailing rates of import duties. Now that many of the rates fixed by the Congress have been altered by some thirty Reciprocal Trade Agreements, the average citizen knows almost nothing of them, and if he is ever disposed to think at all about the tariff, the difficulty of securing the pertinent data will promptly discourage him. Those of us who have supported the Trade Agreements Program should be the first to admit that the fixing of import duties by executive agreement has put our tariff schedules beyond the ken of all but those who have a selfish interest in them.

The war has obviously added to the confusion. Much of what has happened to our foreign trade since Pearl Harbor will remain a military secret until peace is restored. We

know only that the nature and volume of our imports and exports are determined by our military needs—real or fancied—and that goods move in directions other than those determined by their relative costs of production in different lands.

Military requirements not only determine the present character of the world's trade, but, unless peace can be assured, will dominate it in the future. Nations that must face the prospect of war will be reluctant to rely on imports of food or other strategic materials, and in a general struggle for self-sufficiency, international trade will decline to a negligible trickle. No nation can formulate a rational policy concerning either its trade or its merchant marine until it sees how effectively we may remove from the world the fear of military aggression.

If, however, we assume that the post-war world is not to be an armed camp, a trade policy could be formulated which need not be "cleared" with the General Staff. We could insist that such a program make economic, rather than military, sense. However, before such a program can be adopted, the American people must be convinced of the beneficence of freedom in their economic life as in their political life. Those who, for their own advantage, would obstruct the free flow of international trade, must be exposed and pilloried; those who erroneously believe that such obstruction is in the national interest, must be educated. To expose the selfish is seldom pleasant, and to educate the masses is never easy, but both tasks must be performed simultaneously. We can never have a rational foreign trade policy until the fallacies of protection are exposed and extirpated.

I

Illogical Arguments for Free Trade

THE INTELLIGENCE of the readers of this JOURNAL makes it unnecessary to refute the gross errors of the protectionists.

It seems preferable to examine the errors of those who are opposed to governmental restriction of international trade—but for the wrong reasons. For example, it is said that by limiting imports we deprive ourselves of the advantage of increased exports. Those who make this argument unconsciously agree with the protectionists that a nation benefits exclusively or chiefly from its exports. The truth is, of course, that imports are the final justification of international trade, and exports are merely the sacrifice we must make to secure them. Nations, like individuals, derive their enjoyment not from the things they sell, but from the things they buy, and those who argue for the freedom of international trade should never forget it.

Some “liberals,” just well enough informed to know that protectionism lacks intellectual respectability, contend that only by increasing our exports can we maintain full employment when the war ends. Free trade for them is a make-work device. To rest the case for free trade on this broken reed is to invite disaster. For example, the true justification for importing coffee is not that Americans are thereby given jobs producing the things which the Brazilians can buy, but rather that by importing our coffee we get it with less labor than if we grew it in hot-houses.

International trade, like domestic trade, is a labor-saving device, and to defend it on the ground that it “makes work” is to propagate the most pernicious error of our time. Work, for the economist, is never an end in itself, but only a means, and to secure a maximum of goods and services with a minimum of effort is the goal of economic science. Free trade must be urged on the ground that it saves labor while protection wastes it.

Another erroneous belief is that free trade is desirable only between countries with comparable living standards. For instance, the Universities Committee On Post-War Inter-

national Problems suggests that goods should be produced in those countries where they can be produced at lowest cost "provided that economy in production costs is not obtained through a subnormal standard of living."¹ Without attempting to define "a subnormal standard of living" it may be agreed that such a standard is found in India. Are we then to conclude that if we make it more difficult for Americans to buy goods from India we shall be rendering some service to the Indian people? On the contrary, it seems obvious that by excluding Indian goods from our market we should make the standard of living there even more "subnormal."

And as for the American people, will they be better off if, through tariffs, we make it more difficult for them to buy low cost Indian goods? It must be obvious that their interests will be served by permitting them to buy where prices are lowest, whether those low prices are to be found in such low wage countries as India or China, or such relatively high wage countries as Canada or Great Britain. In short, the advantages of free trade apply to trade with all countries, whatever their standard of living, and it is particularly cruel to tell the low wage countries that we must discourage purchases from them because their wages are low. Such a policy can result only in lowering their wages further still. The Universities Committee, in its defense of free trade, was possibly fearful of protectionist and trade union criticism, and its fears induced it to err.

More confused thinking is evident in the demand that the United States should lower its protective duties as a contribution to world peace and prosperity. Free trade is extolled as a sacrifice which a powerful and generous nation should be willing to make in the interest of other peoples. Such arguments appeal to our most generous sentiments, but they only

¹ *International Conciliation*, No. 405 (Nov., 1944), p. 671.

obscure the merits of free trade. In the long run, economic freedom will be better served by hard heads than by soft hearts. Tariff barriers have long since supplanted pirates and uncharted shoals as barriers to international trade, and to remove an import duty has no more to do with generosity than the removal of some wreck which is a menace to navigation. The removal of either can be, and should be, defended on purely selfish grounds.

Because free trade is in the interest of every nation that practices it, our State Department, when negotiating its Reciprocal Trade Treaties, probably erred in referring continually to our tariff reductions as "concessions." As Walter Lippmann observed, when the treaty with France was announced, the "concessions made to France" consisted of permitting Americans to buy for less the things they desired to import from France, while France made a similar "concession" in permitting her citizens to buy American exports at lower prices. While Lippmann approved the treaty, he regretted that our economic ignorance was so profound that even when our government acts wisely it must give foolish reasons for its conduct. When the advantages of free trade are fully comprehended no one will argue that our tariff reductions are to be justified on the ground that they enable us to obtain reductions in foreign tariffs. A reduction of a protective duty benefits the nation which makes the reduction, and on that ground it should be defended if we are to make much progress in our economic thinking.

Nor should tariff reductions be employed for bargaining purposes. Those who converted the British people to free trade—an educational achievement without parallel in history—never argued for the reduction of British tariffs if foreign nations would agree to make similar "concessions." In a letter reviewing their successful campaign, Cobden wrote:

We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better . . . we vowed our total indifference whether other nations became free-traders or not; but we should abolish Protection for our own selves, and leave other countries to take whatever course they liked best.²

Although Cobden and his co-workers won their fight for free trade by appealing to the economic interest of the British people, they never subscribed to the vulgar notion—later popularized by protectionists—that while free trade might be good for Britain, it would be harmful to those nations which were less advanced industrially. No British statesman was ever a firmer friend of France than was Richard Cobden, and he sincerely hoped that the French free traders might win such a victory as had been won in Britain. In a letter to a French free trader (1846), he suggests how the campaign should be fought, and his suggestions are still worthy of every consideration. After discussing the French tariffs of the time, Cobden said:

Then I throw my mantle of an agitator over your shoulders, and bid you to commence the good work. Do not mix up any other question with it. Urge boldly forward the principle of Free Trade—denounce the very idea of Protection. It is a fraud and a *swindle*, and you must not compromise with it a moment. . . . Tell them (French government and people) “we are willing to be taxed for the public revenue—take all we possess if it is necessary for the good of the State—burn our houses over our heads if that be required for the interests of France. But not one sou will we pay for the benefit of particular men, or classes of men.” That is the tone to take to rouse public feeling and sympathy. Take no lower tone.³

Others who oppose import duties apparently believe that the import duties collected are the measure of the loss which a nation suffers because of the duties. Import duties obviously result in higher prices to consumers, but if the price increase goes to the Treasury, there is no loss to the nation,

² J. A. Hobson, “Richard Cobden,” New York, Henry Holt, 1919, p. 41.

³ *Ibid.*, p. 45.

however inequitable the import tax may be. If an import duty is levied for revenue only, such as the British duty on tea, all of the price increase goes to the British Treasury, and the tea duty is but a method of forcing the British tea drinkers to contribute to the support of their government. If tea were admitted free of duty, the revenue now collected from the tea drinkers would have to be collected in some other way. The repeal of the duty on tea therefore, would not relieve Britain of a burden, but would only alter the incidence of British taxes.

When, however, tariffs are levied to raise the price of a domestic product—our sugar tariff for example—the higher price paid by consumers for the domestic sugar goes, not to our Treasury, but to the high cost American growers. What the consumers' pay, indirectly, to the Treasury as duty on imported sugar does not measure the loss which our nation suffers from imports on sugar. The real loss is measured by the increased prices paid by consumers to domestic producers.

But here too we must keep in mind that, for the nation, there is no "loss" of money. The real loss consists of a decrease in the efficiency of our labor. By exporting more of those goods of which we are the low cost producer, and importing sugar from the low cost foreign producers, we would get our sugar with less labor. That is the real advantage to be gained by the repeal of all customs duties which are protectionist in character.

It is frequently said that our protective import duties have little effect on the volume of our foreign trade because the greater share of our imports are already on the free list. Statistical fakirs even divide the total value of our imports by the total duties paid and prove—to their satisfaction—that our import duties are among the lowest in the world. The obvious answer to all this is that our imports are largely restricted to goods which enter free of duty because our

rates on dutiable imports are so high that only a trickle can come in over the tariff wall. If we put our protective rates only a little higher perhaps *no* dutiable imports could enter. Protectionists might then insist that since all goods which entered the United States were admitted free of duty, our tariffs were not restrictive.

The effect of an import duty on a given commodity is better measured by the quantity excluded rather than by the quantity admitted. The fact that no goods may be admitted subject to a given rate does not prove that rate to be ineffective. On the contrary, the rate may be high enough to keep out all imports, which of course is the highest "protection" which can be given domestic producers.

The campaign for the removal of trade barriers would be greatly facilitated if ways could be found to make the public aware of the effect of import duties on retail prices. The following table gives some idea of the contributions which American consumers make to the high cost American producers.

<i>Commodity</i>	<i>Average Rate of Duty (1939)</i>
Sugar	56%
Woolens	69
Meat Products	34
Dairy Products	32
Clocks & Watches	57
Glass & Glassware	62
Cotton lace	63
Chinaware	77
Copper	50

(Adapted from *Fortune*, Sept. 1944, p. 159)

Perhaps some future historian can explain why, for instance, the people of California insisted that food be exempted from their 3% sales tax and yet meekly accepted

what was in effect a 56% federal tax on sugar and a 34% tax on meat. It would seem that my fellow Californians are either less rational than is generally believed, or that they were ignorant of the extent to which tariffs increased retail prices. The assumption most favorable to them is that they did not know how much our tariffs raised the price of food, and such ignorance is probably as widespread in the other states of the Union.

II

The Uncertainties Which Lie Ahead

THE FUTURE OF INTERNATIONAL TRADE is particularly uncertain because it is impossible to foresee the extent to which States, or State agencies, will engage in trade in the post-war era. Although thus far the Soviet Union is the only country in which all foreign trade is conducted by a State monopoly, there is undoubtedly a trend toward direct State participation in the business of exporting and importing. Those States which abstain from direct trading often determine the volume of permissible exports or imports of particular commodities.

For instance, under the International Wheat Agreements of June 1942, the United States, together with other wheat exporting countries, agreed to restrict its annual exportation of wheat within a certain quota. Similar agreements are often proposed for other farm products and raw materials. Although nominally made to assure "orderly marketing, etc.," such agreements almost inevitably operate to maintain prices above the competitive level. By reserving a share of the export market to nations whose costs of production are relatively high, they furnish an incentive for the high cost producers to continue in production, and thus prevent the optimum utilization of the world's resources.

If, in the post-war era, the various political States expand their present programs for the fixing of export quotas, the

world economy will be demoralized. Not only will the nations concerned be poorer for their folly, but the disputes which will inevitably arise when governments act as traders will reduce the hopes of world peace to the faintest glimmer. When we recall how our "sanitary" embargo on Argentinian beef has embittered our relations with that republic, we can imagine what might result if Washington were to refuse admission to exports from, say, the Soviet Union, because no agreement could be reached between our respective governmental agencies. Any program for the expansion of governmental controls over international trade should be logically accompanied by an increase in our armed forces.

The fact that, thus far, the control of international trade by the Soviet government has aroused little more than the unjustified fear of Soviet "dumping," should not make us too complacent. The Soviet system of State trading works well enough so long as other nations do not employ the same methods. Before the present war, if the Soviet trading agency wished to buy products from the United States, it had only to pay the prices prevailing in our domestic markets. And if it wished to sell goods in this country it had only to offer them at prices which were attractive to our buyers. If the prices in each case had been matters for governmental agreement—or disagreement—our commercial relations with the Soviet Union might have completely broken down.⁴

The payment of subsidies is another method by which governments may distort the world's trade and cause plenty of economic mischief. Although subsidies are usually paid to encourage exports and thereby they increase the total volume of world trade, they produce all the evils which result from the protective system. The volume of international trade which will most benefit mankind is that

⁴ For a more detailed consideration of the dangers of State trading, see Jacob Viner, "International Relations Between State-Controlled National Economies" in *The American Economic Review*, Vol. XXXIV, No. 1, Part 2, Supplement (March, 1944), pp. 315-29.

volume which would exist in the absence of governmental interference. The artificial stimulation of exports results in the uneconomical use of labor and capital, just as does the governmental restriction of imports.

The governmental payment of export subsidies is, of course, "dumping" in its most flagrant form. Protectionists, in the lands where the goods are "dumped," have been particularly hostile to this type of imports. Starting with the assumption that imports should be discouraged, protectionists naturally resent any action by foreign governments which tends to increase them. The truth is that if the receiving country could be assured that the exporting country would continue to pay the export bounties, the receiving country would benefit by the fact that its imports could be obtained at an artificially low price.

However, protectionist errors have been so prevalent in recent times that practically all peoples—for the wrong reasons—condemn the payment of export subsidies by foreign governments. At the same time, they frequently insist that their own government—preferably in secret—should subsidize the exportation of "surplus" farm products, and the operation of ships and planes engaged in international trade.

The United States has long been one of the most unctuous critics of "dumping." Our Congress has passed a whole series of laws designed to prevent the dumping of foreign goods in our domestic markets and our leaders have never lacked words or zeal in their condemnation of this practice. Dumping is, in fact, a practice of such ill repute that many of our citizens will be shocked if they ever learn that a set of hardened hypocrites in Washington have for years been "dumping" American flour in foreign markets, by paying subsidies for the exportation of it.

Perhaps because such governmental hypocrisy has thus far gone unchallenged, it has recently been announced that the

practice of dumping will be extended to wheat, cotton, and corn. Having established "political prices" for these commodities, so high that they cannot be sold in the world market, it seems that the "surplus" must be either dumped abroad or destroyed. Neither horn of this dilemma is very attractive, but the planners who have trod so far the path of folly apparently believe that it is better that the United States should be branded as a hypocrite than that the politically created surpluses of wheat, cotton and corn should be ostentatiously burned. The smoke from such a bonfire might get in the voters' eyes!

The payment of direct or indirect subsidies to the operators of merchant ships is defended by all the bad logic in the protectionist arsenal, plus some special ones of unaccustomed absurdity. A national-flag fleet of merchant ships is sometimes compared to the delivery wagons of retail firms, and alleged to facilitate the exportation of our commodities. Such subsidies, in fact, restrict our exports because insofar as our subsidized merchant marine takes business away from foreign fleets, it makes it impossible for foreigners to earn the dollars with which to buy our goods. In time of peace foreign shipping firms compete so keenly for the privilege of carrying American exports that there is no economic justification whatever for a subsidized merchant marine.⁵

The plain truth about shipping is that the United States cannot compete with foreign countries either in the construction of ships or their operation. If our government withdrew its awkward hands from our economy we would devote our labor and capital to the production of those goods and the performance of those services of which we were the low cost producers. But Washington's adherence to the free enterprise system has never been strong enough to resist the

⁵ For an impartial and detailed treatment of our country's rôle in world shipping, see Dr. Clair Wilcox, "Merchant Shipping," *Fortune* (Dec., 1944), pp. 165 *et seq.*

demands of special interests for whom the borrowed money in our Treasury has a peculiar fascination. Lip service goes to the free enterprise system, but the taxpayers' money goes to the subsidy-hungry pressure groups.

Although it is obvious that our merchant marine cannot operate without subsidies, it is equally true that open and frank subsidies are in ill repute. Our shipping companies meet this dilemma with a resort to euphemisms and verbal obfuscations which show little regard for intellectual honesty. Their propaganda, which appears in the form of advertisements in the leading periodicals, never mentions the word "subsidy." In their propaganda-advertisements for August, 1944, which appeared in *Harper's*, *The Atlantic* and other periodicals, the Merchant Marine Act of 1936, which provides for subsidy payments, is called by American Export Lines, "The Magna Charta of the U. S. Merchant Marine." In the same issue, United States Lines refers to the Act of 1936 as "The Bill of Rights" of our merchant marine.

The fraudulent resort to these historical allusions by these two companies in the same month raises the presumption that their propaganda is fabricated at a single source. Anyhow, whether Magna Charta or Bill of Rights, the present law means Treasury hand-outs to our shipping firms, munificent salaries to shipping executives, and profitable advertising for the periodicals which presumably influence public opinion.

III

Strategy for a New Crusade

THE TIMID AND INDIRECT ATTACKS thus far made against both subsidies and protective duties have failed. They even lacked educational value, and were often merely ludicrous. For example, every year when Foreign Trade Week rolls around, educators in the port areas are urged to take their students on a tour of the waterfront, that they may see the

imports and the exports, and perhaps learn to recognize the foreign flags which ornament our harbors. Presumably this juvenile, circuitous approach is designed to make our people aware of the advantages of foreign trade, and the need for an expansion of it. However, the time could be better employed in considering the trade barriers that have been erected by the world's governments, which have consistently vied with each other in the practice of economic folly.

The American free trader's unwillingness to meet the protectionists head-on is largely responsible for our confusion. We have pecked away at the tariff wall, all the time declaring that it was a good wall, but a little uneven in spots, and needed some rubbing down. The results of this intellectual shilly-shallying have been deplorable. Economic freedom is no back-street wench to be smuggled in by a secret door. Freedom of international trade is an essential element of the free enterprise system, and our business leaders must learn that the free enterprise system cannot continue unless freedom is granted to the world's trade.

The timidity of our free traders also shows itself when they urge the reduction of certain tariffs rather than abandonment of the entire protective system. There is something to be said for the gradual abolition of tariffs, but the free trader's ultimate purpose should never be left in doubt. If, for example, we are opposed to a tariff on sugar, it is likely that we could secure its abolition as easily as we could its reduction. Moreover, by arguing for a reduction instead of abolition, we seem to imply that a certain amount of protection is in the public interest. When the public debate takes the form of arguments over the *degree* of protection which should be afforded, the debate has lost its educational value. To dispel the idea that there is some degree of protection which economic science supports, is a first duty of the free trader.

A leader in the campaign to bring the science of economics

down from the ivory tower and into the arena of public controversy is Dr. H. C. Simons of the University of Chicago. His stirring article in *Fortune* (Sept., 1944) was entitled "The U. S. Holds The Cards" and the gist of it was accurately indicated in its sub-title, *viz.*, ". . . But if We Want to Play the Free Enterprise Game at Home We Had Better Be Serious About Reestablishing Free Trade with the Rest of the World." In this article there is none of the customary academic mincing of words. Defying the tradition that scholars should never double as prophets, he confidently predicts the doom of the restrictive system:

American protectionism is simply done for. It is *the* utterly unrealistic prescription for the future. . . . The real issue concerns a more extreme and epochal choice, namely, a choice between free external trade and national, collectivist monopolies of foreign trade.⁶

When a leading professional economist issues such a call to battle, protectionists must know that the time for decision draws near.

The significant thing about the crusade now developing is that it is no mere movement for "tariff reform," but a movement which would eradicate the protective system, root and branch. It is impossible to arouse much enthusiasm for a campaign to lower the duties on a few imports. As Henry George wisely observed when discussing free trade many decades ago,

When told that they must beware of moving too quickly, people are not likely to move at all. Such advocacy is not of the sort that can compel discussion, awaken thought, and press forward a great cause against powerful opposition.⁷

The present campaign for free trade may meet with only partial success, or possibly complete failure. Nevertheless, every happy warrior should be glad that the engagement now

⁶ *Loc. cit.*

⁷ "Protection or Free Trade" (1911 reprint), p. 314.

beginning is to be fought over fundamental issues. The days of appeasement are ended. The friends of commercial freedom may find victory or defeat, but they will accept no compromise.

There are now signs in the heavens which suggest that our generation may witness the final assault on the protectionist fallacies. Our more intelligent business leaders increasingly realize that pleas for the free enterprise system which are alternated with demands for governmental "protection" are too illogical for serious consideration. When the president of the United States Chamber of Commerce openly champions the lowering of our tariff barriers—that's news. And when professorial mice begin to talk back to the fat, protected cats, that's bigger news!

There is a present trend toward a new faith in freedom, a freedom that will extend to trade as well as to thought, to commerce as well as to conscience. There is a reaction to inept governmental meddling, and the friends of free trade should gird themselves for the final battle.

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