

## BALANCE OF TRADE DELUSIONS

By W. R. Lester, M.A.

Professor Cannan's Sidney Ball lecture on "Balance of Trade Delusions" \* comes as a welcome corrective to the flood of inconsequent rhetoric so freely poured out about the Trade Balance. We are told in Press and on platform that this alleged "adverse balance" is draining our lifeblood and that protective tariffs must be called in to rectify it. Professor Cannan here subjects the questionable theory to most painstaking examination. What is this theory on the strength of which is based an urgent call for immediate protection? It is, he says, the apprehension of a "wrong," "unfavourable" or "adverse" balance of trade, by which is meant that exports from this country are not now sufficient to pay for imports into it even after allowance is made for "invisible exports," so named. This granted, it is affirmed that we are on the high road to national ruin unless imports are forthwith restricted by tariffs and made to balance exports. Failing that, the country will be "drained of gold"—its very lifeblood—in order to make up the balance: it is taken for granted that a balance there must be. This is the old Mercantile Theory revived.

Professor Cannan traces this creed back three hundred years, at which time the belief that money is the only true wealth was universally held. Adam Smith and David Hume killed this delusion for all economists, but it still persists in common thought and is at the back of the demand for Protection. Professor Cannan holds there is no reason whatever why imports and exports should balance. For example, during the Napoleonic Wars and the Great War large quantities of clothing, arms, etc., left England to equip her Continental allies and nothing came back in return. To-day Englishmen own land in foreign countries and draw rent from it, this rent being paid by imports without corresponding exports, or Englishmen invest in foreign loans and these investments leave the country as exports, without any corresponding imports. Later on when the interest is paid to Englishmen on these investments it comes into this country as imports without any corresponding exports. It is evident that every payment or receipt of this kind plays havoc with the so-called balance of trade and plays it to-day more than ever because of reparations and war debts. All of which means that the balance of trade idea is not even approximately true.

The point might further be illustrated by taking a typical case of profitable trade. A trader brings to Africa £500 beads (exports) and returns to England with £1,000 ivory (imports). To the balance-of-traders this is an "adverse balance" of £500, which needs "correction" by a shipment from England of £500 gold, or else by tariff restriction on imports. But why talk of any balance at all? Where is the need for it? Surely, if we must talk of balances, this is a "favourable" one, fortunate both for the trader and for the nation. The simple fact is that *in every profitable trade import must exceed export*, so why not let Governments leave it at that?

Professor Cannan then proceeds to examine the common belief that our country is "going to the dogs because it is not really able to pay for all the imports it takes and that we must therefore pull our trade about one way and another by imposing duties to 'redress' or 'put right' the balance of trade, prevent us running into debt to the foreigner and save us from national bankruptcy." He shows that such a notion would never occur to anyone if he were dealing with trade between one part of the United Kingdom and another, and that there is no conceivable reason for supposing that the principles governing trade between the United Kingdom and Germany differ from those between England and Scotland. But we do not fear the ruin of either England or Scotland because of an adverse balance between them. We do not even ask or care whether there is such a balance. Why then should we live in terror of it as between, say, England and Germany?

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Professor Cannan shows that if only we had the wisdom to allow natural forces to work in freedom the balance of trade between nations would in every case redress itself so far as is necessary "without any of the politicians' impertinent and ignorant attempts to assist it to do so." By steps of irrefutable logic he leads to the conclusion that we can but hurt ourselves by reviving the long ago exploded superstition that the balance of trade must be watched over and kept right by Parliament, a superstition he compares to another, once equally widespread, that witches must be smelt out and burned at the stake.

We warmly recommend careful study of the booklet itself, but while heartily subscribing to Professor Cannan's arguments we cannot refrain from asking why, despite such crushing exposure, these superstitions are still so popular even in the highest quarters?

Surely there must be something in our economic environment which predisposes men's minds to error, making the false appear true and the absurd appear reasonable. We know that environment affects outlook and the question arises whether there is not something in the conditions under which to-day we earn our livings that makes men give ready ear to such absurdities as that imports of wealth impoverish a people while exports of wealth enrich it: or to believe that when more wealth comes in than goes out, the country's "balance of trade" is "adverse" and that when more wealth goes out than comes in the balance is "favourable."

It is regrettable that Professor Cannan does not touch on this question. To us it appears that men harbour these demonstrably false notions because unjust laws have brought about unnatural economic conditions where work is made so scarce that to secure it has become a great prize and is looked on as an end in itself. Given this outlook, it seems that to import goods is to lose the *work* of making them, it seems like robbing oneself of *work*, the very thing we think we need. To men with such an outlook it seems clear that when imports exceed exports the balance of trade is "adverse" and we fear that not even Professor Cannan's unanswerable arguments will avail so long as opportunities to work remain artificially restricted by unjust land laws and taxation. If we would have sound reasoning and a sane outlook our minds must first be rid of the dread of unemployment which now distorts our thinking.

The New Popular Edition of *Social Problems*, by Henry George, was ably reviewed in *The Record*, monthly organ of the Transport and General Workers' Union. Our congratulations to the writer, "W. C. G."

The book has had an excellent Press, which has undoubtedly stimulated sales through the booksellers and directly from this office. Most of the journals in their reviews have directed attention also to the Prize Essay Competition, and many applications for the Prospectus have resulted.

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