1. The Nature of Trade, or Exchange, and the Meaning of the Market

Looking around the world today, listening to news reports, reading the economic journalists and the professors of this and that branch of economics (in which the specialisation appears to have a growth rate rivalling that of any other science), one is impressed, and at the same time depressed, by the general preoccupation with the artificial 'problem' of trade, particularly of international trade.

To primitive man, trade is a simple enough proposition. He knows, for instance, that the people in the village across the valley grow better sweet potato than he and his people can because of the better soil of their land. On the other hand, he and his people are clever at making pots from the clay which is located in their village. These two facts are sufficient to bring the folk of the two villages together for the purpose of enjoying both pots and sweet potato.

There are two alternatives open to them: they may fight each other for possession of the respective resources, which would result in mutual suffering, possible reduction of the population and much waste of time and effort for little real gain on either side; or they could offer each other their respective products in *barter*, agreeing on a basis of relative value — one pot, say, for a basket of sweet potato — as a result of which everyone is happy as their respective desires are gratified with the least trouble and without conflict. An accompanying advantage, by no means unimportant, is the mutual pleasure derived from the exchange on the plane of human relations, in other words friendship.

In our own day and age, this simple matter of improving living standards and providing mutual satisfaction has become, in the process of the 'civilization' and 'sophistication' of the exchangers, a thing so complicated and inhibited, surrounded by clouds of myth and sophistry, as to be unrecognisable and, instead of a medium for the improvement of human relations, productive of international tension and, *in extremis*, war. The lesson learned by primitive man has eluded his modern descendant.

It is clear that, as populations grow and societies develop away from the simple village structure, the process of exchanging commodities inevitably changes, both quantitatively and in form. Both the demand and the supply expand into areas hitherto unknown as human desires change and increase and techniques of manufacture improve in response to this, and the range of choice broadens by the exchange of ideas, imitation, the exercise of imagination and the gradual development of arts and sciences.

Methods had to be found, because of these developments, to facilitate the once simple process of exchange by barter between man and man and village and village. And the first and fundamental stage of this change was the setting up of *markets*, where innumerable exchanges, still at the barter level, could be effected at the same time: sweet potato for pots, fish for pots, pots for chickens, chickens for bananas, bananas for woven mats.

Next in the process of change and improvement emerged the method of simplifying barter by the introduction of *currency*, the use of a substance mutually acceptable for its steadiness in value, its relative material permanence and the facility it offered of postponing or extending the completion of exchange — if there was nothing on offer in the market you immediately needed you could take currency, in exchange for your own product, and use it to buy things available at a subsequent date. (Currency, of course, took many forms in different communities and at different times, before societies arrived at the present stage of coin and negotiable 'paper'). This was the beginning of a profound and fundamental change in the trading situation capable of indefinite extension to meet changes in the shape and nature of societies and the gradual increase in population.

The introduction of currency marked also, unfortunately, the beginning of a system of which the advantages could be offset by abuses as unscrupulous manipulators exploited the mass of the people ignorant of its possibilities for a form of personal gain above and unrelated to its basic social purpose of providing a 'medium of exchange and a measure of value'. It began, in effect, the evolution of what today is called *money* and which is now the source of the most disastrous popular misconception in history and a means of enslavement of the people more efficient than any invented by the despots of the past.

This is not to suggest, as claimed by some — e.g., the Social Credit Movement — that money is the basic cause of man's enslavement; it is, however, a mechanism the harmful possibilities of which have been amply demonstrated in recent times. What *is* clear is that these harmful possibilities have accompanied the spread of socialism and the socialist theory of government. (Another area of exploitation productive of far greater damage to the economic structure of society, will be dealt with in later chapters of this book).

Accompanying the growth and change in the nature of human society, actually an important ingredient in that growth and change, was the evolution of the *division of labour*[1] by which personal skill in one occupation produced advantages to both the possessor of it and the rest of the community. The natural economic law by which *man tends to seek the satisfaction of his desires with the least expenditure of energy*, can be seen to operate here with the result that the baker relieves the housewife of the necessity to bake her own bread and, in the process, provides himself with the currency which enables him to acquire goods and services produced by the labour of others. Similarly, skill in the building of houses, or in the making of clothes rewarded the craftsman and the rest of society alike. Some housewives still prefer to bake their own bread, but it is obvious that the vast majority of people avail themselves of the service provided by the baker and divert the energy thus saved to tasks and occupations more profitable, and often more congenial, to them. Similarly, throughout the whole of society people found that by doing or making one thing well that was in constant demand they could make a satisfactory living and at the same time save themselves the greater effort required to produce their own necessities and even enable them to acquire things they themselves never could have produced. Thus *the basically co-operative nature of society* found expression through the division of labour.[2]

A further phase of socio-economic evolution developed as tradesmen and providers of services found themselves in possession of accumulations of currency over and above their immediate needs, a margin of income over expenditure. In other words, they began to accumulate *capital*. Actually, the first man to make or acquire a tool by which his own labour was either reduced or made more efficient, produced capital in the process. For capital is simply *saved or stored, labour*. (The subject of capital is dealt with, more extensively, in a subsequent chapter. It is sufficient for the immediate purpose to point out the essential nature of capital and to suggest that all is not capital that is commonly so described; that, in fact, one of the most widely held myths of our day surrounds the subject of capital and *capitalism*.)

The last phase in the development of modern economic society was that of expansion of the principle of trade and exchange on, first, a national, then an international scale, paralleled by the expansion of communities from the village to the city-state, to the nation, to the empire and the inter-communication of people of different races around the world. Thus developed the vast network of exchanges covering the whole world, described in the language of economics by the abstract term *the market*, used to cover every transaction in which an exchange occurs between individuals or groups (as companies or co-operatives) for mutual profit, involving currency (money) as the mechanism of exchange — any exchange, that is, other than simple barter. (We thus distinguish between the respective terms 'a market place' and 'the market'.)

The phenomenon of recent times of huge exchange transactions on the level of government-to-government agencies such as wool boards, meat boards, egg boards, potato boards, represents simply a reversion to barter on an international scale. As such it debases the quality of the market, the true function of which is exchange between people singly or in groups, free to come and go as they please, to accept or reject terms, acting in their own interests and taking profit or loss, as the case may be, belonging to themselves and not, as in the case of governmental agencies, to some 'authority' born out of political pressure by sectional interests.

The consequences of this departure from the *natural* market principle are widespread and disastrous. Apart from the manipulation of the market in the interests of pressure groups at the expense of the rest of the community, it steadily diminishes the liberty of the subject, produces despotism and corruption. It is in part, also, responsible for the frequent 'money crises' that occur, like cyclones, with devastating effect on the health of nations. Finally, we are witnessing, in the floundering and confusion characterising so-called trade relations around the world, a complete contravention of the true political economy laid down by Adam Smith and his successors. In its place the lauded pragmatism of modern economists has produced the cult of 'economic management' and anachronisms like 'the mixed economy', accepted by such economic pundits as Paul A. Samuelson as if it were a normal development in the evolution of human society, instead of reflecting the breakdown of the true economy and the universal slide towards socialism and totalitarianism. On the one hand we have reverted to the mercantilism of the 18th century while, on the other, we have handed the husbanding of national resources to corrupt or doctrinaire politicians on which to build their bureaucratic empires.

This theory of economic management which dominates the world today was given its greatest impetus by the English economist, Lord Keynes, on whom we may also father the modern theory of 'exchange control', whose monument, the Breton Woods Agreement of 1944, will one day be universally recognised, if it is not already, as one of the most disastrous events in the recent history of mankind. The theory, however, owes its real origin to the socialists, and it is socialist thinking which dominates those who, under whatever party label they operate, have charge, from time to time, of the affairs of nations.

It is therefore necessary to examine the basis and development of socialist theory in order to establish the nature and extent of its errors.

Notes to Chapter 1

1. ADAM SMITH: *The Wealth of Nations*, vol 1, Book 1, Chapter 1.
2. ADAM SMITH: Ibid. vol 1, Book 1, Chapter 2:
"This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another."