14. Anti-Trade

"The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."

ADAM SMITH

A large ingredient of political rhetoric these days concerns international trade. The paradox of this is that, in fact, this is the age of Anti-Trade.

Never since the heyday of European mercantilism — to the dangerous stupidities of which Adam Smith devoted so much attention in his monumental work, The Wealth of Nations (to which modern economists still pay lip service as the foundation of their science) — has the natural desire of all people to associate together in the civilizing activity of trade been so frustrated and prevented by politicians either in the pay of special groups or under the spell of fanatical doctrine.

As Oswald Garrison Villard said, in the preface to his book, Free Trade – Free World², of the situation as he saw it in the United States of 1947: "Even to one familiar with it all his life, the wonder grows that so able, enterprising and intelligent a people as the Americans have been so readily deluded for many generations. It seems beyond belief that a nation, now the most powerful on earth, has so long feared the competition of states, some largely without natural resources and others wholly without intelligent and adaptable labour and the mechanical equipment of our industry, and that it has trembled lest it be ruined by masses of underpaid, underfed, half-slave foreign workers overseas."

This despite the wisdom of such of their forefathers as, for instance, Albert Gallatin, Secretary to the U.S. Treasury under Jefferson, who, writing on the tariff system as advocated by Hamilton, said:

"Let it be recollected that the system is in itself an infraction of an essential part of the liberty of the citizen. The necessity must be urgent and palpable which authorizes any government to interfere in the private pursuits of individuals; to forbid them to do that which in itself is not criminal, and which everyone would most certainly do, if not forbidden. Every individual in every community, without exception, will purchase whatever he may want on the cheapest terms within his reach. The most enthusiastic restrictionist, the manufacturer most clamorous for special
protection, will, each individually, pursue the same course and prefer any foreign commodity or material to that of domestic origin if the first is cheaper, and the law does not forbid him. All men ever have acted, and continue under any system, to act on the same principle... The advocates of the tariff system affirm that what is true of all men, individually, is untrue when applied to them collectively. We cannot consider the adherence of enlightened nations to regulations of that description but as the last relic of that system of general restrictions and monopolies which had its origin in barbarous times..."  

Nations, of course, do not ‘tremble’. Individuals may do so in the prospect of the reduction of privileges secured to them in the absence of competition. And, whereas it is always in the best interests of the nation as a whole that trade should be unfettered, it is individuals or groups who oppose this in their own selfish interests, demanding protection, not for any of the reasons with which they fill the media, but for their own privileges existent or hoped for.

What was true of the United States in 1947 may be seen to be as true throughout the whole world today. The lessons of the past have not been learned. Adam Smith might as well not have lived to produce his great compendium of economic wisdom. Mercantilism is alive and well in 1979.

The only difference between the mercantilism of the past and that of today is that the former was more honest. The buccaneers of Elizabeth’s day, just as the imperialists of the 18th century, had no need to rely on a rhetoric composed of such cliches as ‘the national interest’ or ‘the public good’; they did engage in a bit of ironic boasting about ‘the greatness of England’ — or of Spain or Portugal or Holland, as the case might be — as they burned cities whose inhabitants were not eager to be the victims of their ideas of trade, or sank the ships of their competitors in the general brigandage.

Nowadays the buccaneering is performed by bureaucracies using computers and mouthing the pseudo-patriotic slogans devised by politicians at the behest of their paymasters, the huge impersonal associations of producers, all in the name of such anachronisms as ‘the GNP’ and ‘growth’. So that we have Prime Ministers jetting hither and yon, flogging their citizens’ produce like salesmen, threatening retaliatory action for alleged offences against their home-made rules of the game, using blackmail (“you will buy more of our beef or we won’t let you have any more of our coal”), and all the while ranting in the capitals of the world about aid for under-developed nations who are to be presented with the surplus production of the huckster nations, at give-away prices subsidised by the latters’ tax-slaves, and burdened with mountains of ‘credit’ the interest on which is calculated to bankrupt them.

A visitor from outer space might well stand appalled by such behaviour in the name of ‘international trade’; on reading for instance, a newspaper headline which says “P.M. ready to trade blows over trade” to a report
which begins: "The flying two-day visit to Australia this week by the New Zealand Prime Minister, Bill Dowling, looks more and more like an attempt to avoid pitching the two countries into a full-scale trade war." What, in the name of sanity, he might well wonder, is a ‘trade war’? And why should two amorphous bodies called countries engage in it? From the point of view of anyone not doped by the drug of macro-economic propaganda, or duped by the hypocrisy of politicians, this can have as little relation to the behaviour normal to people desirous of exchanging their respective products in the market-place as warfare in the name of ‘The Prince of Peace’.

The above report merits further study for its implications of the madness which has overcome allegedly civilized people, living in close proximity to each other, whose normal desires to trade with each other have become perverted into such attitudes that their respective prime ministers must engage in angry recriminations about such absurdities as ‘the balance of trade’ and ‘a dominant share of the market’. Reference is made, for instance, to the existing, if precarious New Zealand and Australia Free Trade Agreement (NAFTA), an anachronism if ever there was one. No one questions the necessity for such an ‘agreement’, a document, signed amid the pretentious pomp common to state occasions, by heads of governments, sitting under the arclights of the television men, surrounded by hordes of officials, which purports to proclaim that a partnership in trade now exists between the two parties, to effectuate which self-imposed obstacles to the exchange of certain goods had been removed or reduced. No one questions the astronomical waste involved in the negotiating, drafting and signing of such a document. No one questions the lunacy of creating the obstacles referred to in the first place designed to prevent the ‘free trade’ which this ‘agreement’ is supposed to sanctify.

And whom do such ‘agreements’ actually benefit? Their carefully lawyer-drafted language is intended to convey that the citizens of the participating nations will be the beneficiaries, through increased choice of goods, through the benefit of competition and the growth of industries covered by the ‘agreement’. The facts are soon seen to be otherwise. Choice of goods may be marginally increased, limited by the range of goods covered by the agreement’s schedules and governed by the protection-inflated prices. Competition brings only trouble, as witness the hostile positions adopted by the partners of NAFTA, as described in the above report, over carpets the N.Z. manufacturers of which angrily complain that Australia has undercut their ‘advantage’ in the Australian market by allowing the importation of ‘a flood of cheap, synthetic carpets from other countries’.

As for industrial growth, the industries in both countries would grow naturally, assuming efficient management, if true free trade existed without the intervention of expensive and meaningless ‘agreements’. All that happens now is that certain industries grow at the expense of others, and of the consumer. What, in fact, such agreements amount to is a mechanism for
controlling trade and obstructing it in respect of industries likely to be really competitive.

Henry Hazlitt, in his excellent book, Economics in one Lesson refers to "the persistent tendency of men to see only the immediate effects of a given policy, or its effects only on a special group, and to neglect to enquire what the long-run effects of that policy will be, not only on the special group but on all groups." This, he says, is the central fallacy of what constitutes modern economic doctrine. It is certainly the central fallacy of the doctrine of Protection, the core of present-day mercantilist policy.

The classic example of this fallacy may be seen in the eccentric behaviour of the Australian Government in the 1970's in respect to tariff protection. Ignorant of the fundamentals of economic wisdom, wedded to Neo-Keynesian economic policy, confused by the theories of various 'advisers', the decision was taken in 1973 to reduce a wide range of customs duties by 25 percent. This decision could be likened to the action of a drunken man tossing the match that lit his cigarette into a heap of highly combustible material. The resultant explosion reverberated throughout the Australian economy with panic effect. The screams of pain and anger from affected industries, and from industrial labour, shattered the nerves of Cabinet Ministers and officials alike with the result that hasty ad hoc decisions immediately followed designed to mitigate the consequences even before these were more than allegations by the irate beneficiaries of protection.

The main burden of the denunciations, by leaders of protected industries, and by their allies, the unions, was of course the 'disastrous unemployment' that would inevitably ensue. The truth was that unemployment, as a direct result of tariff cuts was relatively minor, as Alan Wood, writing in The National Times of March 3-8, 1975, showed when he quoted the number of people registered for 'unemployment income maintenance due to structural change' as 23,000, of whom, he pointed out, "only 8,824 were actually receiving 'structural adjustment assistance' which related to specific government tariff decisions." It is also pertinent to remember, as Alan Wood stated, in the same article, "The tariff cuts that were made have, in any case, been more than reversed by the Government's devaluation decision. This, he continued "amounted to something of the order of a 45 percent tariff restoration. Ironically, it was sold to the Government on the basis that the alternative would be a general return to protectionism."

The main argument of protectionists and planners alike is based on the safeguarding of employment, in fact of 'full employment' — that anachronistic socialist cliche stemming from the concept of society as a hive of bees. On this subject, Henry Hazlitt has some succinct remarks in his chapter, The Fetish of Full Employment. "The economic goal of any nation, as of any individual, is to get the greatest results with the least effort. The whole economic progress of
mankind has consisted in getting more production with the same labour. It is for this reason that men began putting burdens on the backs of mules instead of on their own; that they went on to invent the wheel and the wagon, the railroad and the motor truck. It is for this reason that men used their ingenuity to develop a hundred thousand labour-saving inventions.

"All this is so elementary that one would blush to state it if it were not being constantly forgotten by those who coin and circulate the new slogans. Translated into national terms, this first principle means that our real objective is to maximise production. In doing this, full employment — that is, the absence of involuntary idleness — becomes a necessary by-product. But production is the end, employment merely the means. We cannot continuously have the fullest production without full employment. But we can very easily have full employment without full production.

"Primitive tribes are naked, and wretchedly fed and housed, but they do not suffer from unemployment. Hitler provided full employment with a huge armament programme" (just as the United States and the Soviet Union and lesser powers are doing today). "Coercion can always provide full employment. . . .

"Wages and employment are discussed as if they had no relation to production and output . . . a hundred make-work practices of labour are confusedly tolerated . . . the progress of civilization has meant the reduction of employment, not its increase. The problem of distribution, on which all the stress is being put today, is after all more easily solved the more there is to distribute."

How true is the proposition that protection is necessary, or that it is even effective in the safeguarding of employment? Looking beyond the narrow field of particular firms, or even particular industries, the consequences of protectionism are clearly to be seen as disruptive and distorting of the normal working of the economy. Instead of industries arising naturally out of meeting demand in the competitive situation of the free market, and based on resources equally subject to the free movement of price, industries are maintained, even created, whether efficient or not, under the tariff umbrella. And so the consuming public are subjected to a reduction of choice, an artificially created price, high taxation to cover the cost of the bureaucracy involved in the fixing, maintaining and collection of tariffs and other restrictions on imports, and the corruption of officials and politicians; while those employed in the protected industries find their protection-inflated wages do not protect them from the consequences when they themselves go into the market as consumers.

Employment being based on production, it is obvious that the wider the market and the range of choice of the consumer, and the more he can buy through the absence of protection-inflated prices, the greater the opportunities for enterprise, for innovation and invention and so of
employment opportunities in order to satisfy the consumer's increased demands.

Probably the greatest example of the fallacy inherent in the theory of protectionism, as in the theory of the planned, or managed economy, is the European Economic Community. This monstrous socialist conglomerate of denatured nations, floundering along from year to year in their unnatural partnership, like a team composed of bullocks, mules and unbroken brumbies, under the whip of their joint subservience to the creed of modern mercantilism, was created in the sacred name of 'free trade'. In actuality, it was a 20th century return to the principle of the walled city of the Hanseatic League of the 13th.

Anyone who has followed the progress of this economic anachronism from its inception in January, 1958, will have followed a trail of garbage comprised of discarded principle, torn-up, out-dated plans and appalling waste of produce destroyed in the interest of price maintenance. Accompanying this has been the steady growth of the central bureaucracy (recently stated to be around 7,000 persons\(^8\)). When a 'common market' has to resort to the practice of "making surplus wheat unfit for human consumption and then feeding it to pigs or cows to hold up prices"\(^9\), in a world where millions are starving for the want of it, it should surely be indicted before the International Court of Justice for a crime against humanity.

The vaunted alleged advantages of the E.E.C., at the time of its formation, look pretty unreal in the light of conditions prevailing after seventeen years of operation, as *The Economist's* monthly reports on production, employment and money supply indicate; in its issue of April 5, 1975, it summarised the figures as follows: "None of the E.E.C. countries increased its industrial output in the past three months; in six countries it actually fell. Unemployment is still rocketing up." And the report showed an increase in the money supply of all member countries of about three per cent (twelve per cent for the year).

As to the effectiveness of its management, under the code of the Treaty of Rome, for which the 7,000-man bureaucracy (over 10,000 if the membership and staff of the other institutions of control, such as the Council of Ministers and the European Parliament, are included) exists, hardly a day passes without breaches of the rules being reported from one country or another in relation to commodities or obligations. There was, for instance, in April 1975, the case of a surplus of wine — *The Economist* referred to it as "a lake" — involving a row between Italy and France in which French vigneron prevented ten Italian ships carrying 25 million litres of wine from discharging in the port of Sete. To which the Italians responded by banning French cheese.

Over-arching the E.E.C. and all other multi-nation groupings for the alleged benefit of mankind is the great GATT (the General Agreement on
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Tariffs and Trade), the daddy agreement of them all, set up in 1948 with the avowed aim of making world trade ultimately free. (According to the Australian Year Book for 1973, at 1972 only one country in the whole world had actually ratified the Agreement — Haiti — though most countries had accepted it ‘provisionally’.) Progress in this laudable direction is lamentably slow and, in terms of bureaucratic involvement, expensive. One of the greatest obstacles to progress is the inefficiency of agricultural industries in many countries, notably those within the E.E.C. In consequence, tariffs and non-tariff devices have long been in operation and are hard to shift.

An interesting article on the relative value of trade agreements in general appeared in The Bulletin (Australia) on April 5, 1975, by Kenneth Graham, the journal’s agricultural columnist. On the question of their value to the Australian primary producers, Graham says: “There should be some basis for re-thinking of attitudes about international commodity agreements. For what little thinking the primary producers have done about international trade policies for agriculture the only result is an expression of support for commodity agreements. Historically they have been ineffectual and a nuisance as far as Australia is concerned. If each of the agreements to which Australia has been signatory is examined objectively no one can show that the Australian producer has benefited. In many cases we were tied to markets at below international market prices or could not force the importers to take the quantities guaranteed under the agreement.” He refers to the attitude of United States negotiators at GATT conferences arguing for more understanding of the common sense of normal trade relations: “The Americans have argued that if the trade in agricultural products is easier then the U.S. industrial products markets will be more readily available to the Europeans. They have also argued that it is far better to remove all the tariff and non-tariff barriers to trade, resist the temptation to enter into international commodity agreements and allow price to influence production.”

The reluctance of Australian industrialists and government officials to accept the logic of such reasoning is indicated by this statement: “From the Australian point of view there are some objections to this pure approach. Firstly, our industrial products markets are relatively small and if imports are increased one of the results may be more unemployment. Secondly, there has been a long history of support for international commodity agreements at a departmental level and that philosophy is not easily shifted. Thirdly, there is also the horrible thought that if we actively support the United States’ approach at Geneva, New Zealand may quickly seek a larger share of the dairy products market.” He goes on to say that “Australia has been guilty of many of the offences committed by the E.E.C. countries” and quotes the prevention of the import of New Zealand potatoes and the restrictions on other N.Z. products. Australia has not, he says, been guilty of some of the more bizarre behaviour of E.E.C. countries, citing the example of the
prohibition of the import into Europe of chilled mutton, while live sheep are admitted and may be sold as fresh or chilled mutton six months after importation.

Summing up the effects of trade barriers in general, Graham says, after referring to the huge surpluses in major food products created by the artificial prices maintained to protect producers: "Three parties are disadvantaged. The domestic consumer because he cannot buy relatively cheap foodstuffs. The exporter who cannot sell cheap food products and is probably forced to dump them on other markets. Finally the producer himself who is given false hopes about his future."

One aspect of the effects of macro-economic philosophy is the persistence of the concept of 'foreign reserves' and 'the trade surplus'. Peter Samuel, in The Bulletin of January 22, 1972 had some succinct comments to offer on the subject from the Australian point of view:

"Mercantilist thinking is so heavily imbued in the minds of public figures in Australia that many people think in terms of 'the more, the better' in relation to the trade surplus. The mercantilist mentality overlooks the fundamental question of why we export at all. In essence, we ship coal, wool and bits of motorcars out of the country because, in exchange, we can get a better deal in importing produce than we could get trying to manufacture here. In other words, we engage in international trade solely because it improves our standards of living — our net national productivity, so to speak. Piling up foreign currency reserves is the other side to the coin of exporting larger quantities of goods than we really need to pay for our imports — it is a way of subsidising other people's standard of living, by selling our goods at less than we could get for them and paying more for their exports to us."

Bastiat, in his Economic Sophistries, in a chapter in which he explores the attitudes of tradesmen to protectionism in a village 'mutual aid society' of his own day, presents their general conclusion that "It is better to support oneself by one's own efforts and have customers who are well-off than to be protected and have customers who are impoverished." Bastiat's well-known ironical treatment of the arguments of protectionists is brilliantly presently in allegorical form in his chapter called A Petition, the 'petition' being addressed to the French Chamber of Deputies by the manufacturers of candles, lanterns, street lamps, etc. and the producers of the associated raw materials, praying for protection against the competition of their 'foreign rival' — the sun.

Protectionism is, of course, only one aspect of the anti-trade madness which afflicts the modern world. In an excellent survey of the history, and the effects, of the modern movement away from the more enlightened period of free-trade philosophy of the 19th century, Paul Stevens, in an article on The New Protectionism in The Freeman of November, 1974, shows how "Greater government intervention into the economy led to greater
restrictions over domestic exchange. A growing populist movement urged government to engage extensively in economic matters. Inflationists began propagating massive government programmes that would not likely gain popular support if financed through direct taxation. By the 1920’s government had gained total control over the issuance of money substitutes and was using this power to finance new and ever-growing government programmes. Although the gold standard was not officially abandoned, for all intents and purposes it became non-operational. Meanwhile, international trade was faltering; the accumulated debts of major nations and the undercutting of gold flows (which, under normal circumstances, would lead to price equilibrium among nations), were monetary distortions.

The Depression of the thirties, consequent on these policies, was the breeder of a political response of “even greater domestic and international protectionism to ‘solve’ world problems. In 1930, protective tariffs were raised to the highest level in United States history — an average of over 52 per cent on dutiable goods. Of course foreign nations retaliated with their own import restrictions. As a result, between 1929 and the third quarter of 1932, the volume of world trade contracted by one-third while the gold value of world trade fell by nearly two-thirds.” When governments “chose statism and inflation as a way to deal with social, economic and monetary problems domestically, they chose force as their primary method of dealing with men. And domestic problems and policies soon enough became international problems and policies. In a time of emergency, good sense, reason and truth became ‘impracticable’ — nothing less than brute force would do. Protectionism, a world trade ‘war’ and economic chaos were (and always will be) the product of this kind of thinking.”

Henry George, in his Protection or Free Trade, says “Free trade, in its true meaning, requires not merely the abolition of protection, but the sweeping away of all tariffs, the abolition of all restrictions (save those imposed in the interests of public health or morals) on the bringing of things into a country or the carrying of things out of a country. But free trade cannot logically stop with the abolition of customs houses. It applies as well to domestic as to foreign trade, and in its true sense requires the abolition of all internal taxes that fall on buying, selling, transporting or exchanging, on the making of any transaction or the carrying on of any business, save, of course, where the tax is for public safety, health or morals. Thus the adoption of true free trade involves the abolition of all indirect taxation of whatever kind and the resort to direct taxation for all public revenues.

“But this is not all. Trade is a mode of production and the freeing of trade is beneficial because it is a freeing of production. For the same reason, therefore, that we ought not to tax anyone for adding to the wealth of a country by bringing valuable things into it, we ought not to tax anyone for
adding to the wealth of a country by producing within the country valuable things. Thus the principle of free trade requires that we should not merely abolish all indirect taxes, but that we should abolish, as well, all direct taxes on things that are the product of labour; that we should, in short, give full play to the natural stimulus to production — the possession and enjoyment of things produced — by imposing no tax whatever upon the production, accumulation or possession of wealth (i.e., things produced by labour) leaving everyone free to make, exchange, give, spend or bequeath."

(He then proceeds to discuss his proposal for the raising of national revenue without resort to accepted channels of taxation.)

To return to Paul Stevens and his historical survey, he points out that "The free trade movement did not come to the world accidentally — it came as the result of applying reason to the political and economic sciences, i.e., as a result of moving towards capitalism. Likewise, protectionism did not come to the world accidentally, but resulted from increased coercive government power and men’s failure to properly challenge that power, i.e., as a result of moving towards statism." The United States, he reminds us, "was born of an intellectual revolution. Ideas on liberty led to economic heights previously inconceivable. Then came the anti-intellectual revolution of the 20th century and with it regression towards ignorance, concern for effects rather than causes, and the politico-economic expression of such regression — increased statist controls." The result has been "greater economic and political problems and the beginning of a decline in the material well-being of U.S. citizens."

That decline is reflected, as this book is being written, in the unemployment statistics of that nation, as of Great Britain, Australia, and even of West Germany, whose ‘economic miracle’ was the envy of the rest of the world in the ‘fifties’. Those statistics give the lie to the protectionists’ main argument: The economic nationalism embraced by every nation around the world today is reducing daily the prospect of peace ever being more than the balance of terror under which we at present live. Economic nationalism, with the criminal behaviour of governments under the blight of neo-Keynesian macro-economic policy, is daily narrowing the field in which honest and sincere thinkers throughout the world may meet together to solve international problems in an atmosphere of mutual respect and tolerance. The ‘oil crisis’ of the ‘seventies’ is merely one of a series of shocks in store for humanity until it learns to break down the barriers to mutual understanding of the One World idea of the late Wendel Wilkie.

Oswald Garrison Villard closes his Free Trade—Free World with a series of quotations from the speeches and writings of famous men. Included is this extract from an article by the late Winston Churchill¹⁴, repelling the attack of the protectionists of the day: "I contend that for a nation to try and tax itself into prosperity is like a man standing in a bucket and trying to lift
himself by the handle. Why should the world’s shipping labour in the chops of the Bristol Channel or crowd up the dreary reaches of the Mersey? It is because the perverted ingenuity of man has not been occupied in obstructing our harbours with fiscal stake-nets and tariff mud-banks. That is why they come. That is our great advantage; and when we have thrown it away what shall we have to put in its place?” They threw it away in 1932 and History has recorded what they put in its place; the latest manifestation of which is Britain’s absorption into the E.E.C.

In Australia, where the socialists were busy trying to extricate the nation from the same disastrous mistakes, a radio news item on May 8, 1975, reported that 7,000 waterside workers were out of work, and on ‘idle time’ payments running into possibly $500,000 a day, at Australia’s main ports because of “a falling-off of shipping”, a consequence of a reduction of imports due to the imposition of import quotas and other restrictions.15 (it was noted that the news item was not repeated in subsequent broadcasts).

Nothing in the history of man’s behaviour in a socio-economic sense exposes his ignorance, perverseness and short-sightedness so thoroughly as the persistence of his masochistic preoccupation with ‘protection’.

NOTES ON CHAPTER 14

1. The Wealth of Nations (Everyman edn) Bk. IV, pp.400 et seq.
6. Economics in One Lesson (see note 5)
7. Ref. The Tariff and the Tip-off (article) by Maxwell Newton in The Nation (Australia), April, 1966, for the working of the lobby system and the intimidation of business by Customs bureaucrats.
11. Ibid., chapter 7, pp.56/60.
12. The Freeman, monthly journal of the Foundation for Economic Education, Irvington-on-Hudson, N.Y.
13. Protection or Free Trade by Henry George; Kegan, Paul; London, 1932. P.104/5.