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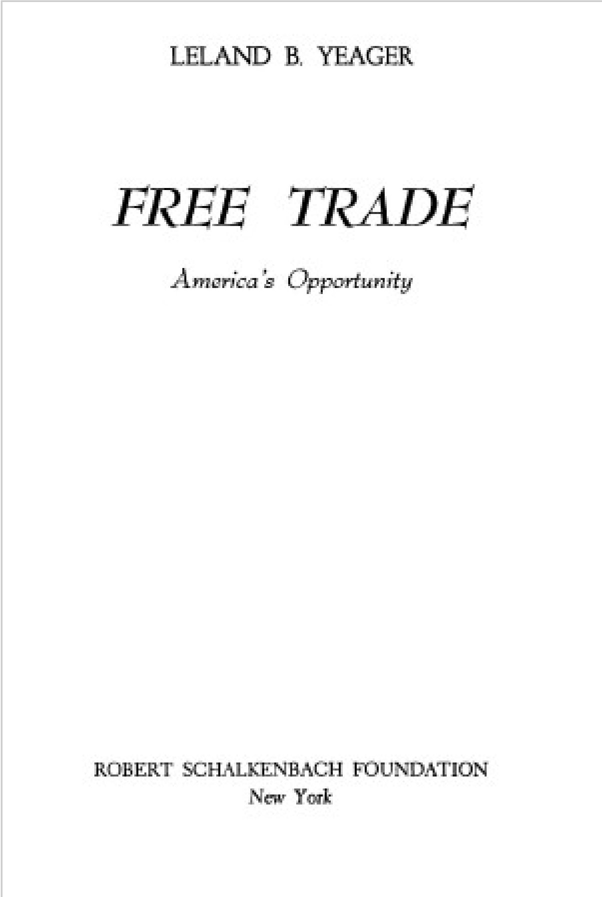
LELAND B. YEAGER

FREE TRADE

America's Opportunity

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One

Free Trade—A Timely Proposal

Free Trade is the policy of competitive private enterprise in international trade, of reliance on the free market, of governmental noninterference with imports and exports. Protectionism is the policy of curbing imports for the supposed benefit of the home economic system.

Economics can appraise policies as means toward particular ends, but economics alone cannot lay down the ends that policy "ought" to aim at. For this reason, a supporter of any economic policy must rest his case not only on economic analysis but also on his idea of what is "desirable"—on his conception of the "good society"—on his so-called "value judgments." Fortunately, intelligent discussion will often reveal a broadly-based agreement on fundamental values. The following value judgments underlie the case for Free Trade argued here: (1) That the well-being of individual human beings, as they themselves see it, is supremely desirable. (2) That high and rising standards of living in terms of useful goods and services are an important element in human well-being (though not necessarily of overriding importance). (3) That people should have as much freedom to run their own lives and businesses as is compatible with the freedom and well-being of others. (4) That no group of people has a right, merely because of the occupation or industry in which its members work, to special favor from the government at the expense of the general public.

The core of the Free Trade case—that unrestricted international specialization makes more goods and services available to the people of all trading countries than does restriction—has been argued for at least two centuries. Yet the same false old arguments for trade barriers still keep cropping up, as influential as ever among uninformed people. One must keep on refuting these fallacies lest the Free Trade case lose by default.

For a person who accepts the value judgments stated above, the Free Trade case does not depend on special historical conditions. It does not have to be buttressed with ridiculous bits of recent economic history arranged in statistical tables with such titles as "U.S. Imports of Shrimp (Heads-off), Mexico, 1935-1950"; "United States Imports of Household Decorated China Table and Kitchen Articles, 1937-39; 1947-50"; "Anthraquinone Vat Brown R-Colour Index No. 1151 Strength Comparisons"; and "Use of Coconut, Cottonseed, and Soybean Oils in Margarine." However, precisely to show that the Free Trade case is not history-bound, it is worth while to review the arguments pro and con against a background of current events.

Proposals for lowering American import barriers or even for outright Free Trade have become more and more respectable in recent months among practical businessmen. The National Committee for Import Development has been growing in influence. The

United States Council of the International Chamber of Commerce has recommended a 20 per cent across-the-board tariff cut in January 1954 and further progressive cuts thereafter. The Committee for Economic Development, the National Foreign Trade Council, and the National Association of Manufacturers have all recommended a more liberal trade policy. The Chamber of Commerce of the United States recently sponsored a factual report criticizing American Protectionism and calling by implication for reform. In its convention of April 1953, the Chamber of Commerce, adopting the most liberal statement on foreign trade policy in its history, urged that broad national interests rather than the welfare of single industries guide tariff adjustments. The Public Advisory Board for Mutual Security, made up of prominent Americans in business, labor, agriculture, and other fields, has submitted to President Eisenhower a report calling for customs simplification and much lower tariffs.

Early in 1953 the Council on Foreign Relations surveyed the opinions on trade policy of 825 leading citizens in 25 American cities. A large majority, favoring a free world market rather than government controls on trade, agreed that tariff cuts should have an important place in United States policy. A majority supported an increase in imports in the broad national interest, even though some domestic producers would face sharper competition.

Individual businessmen who have spoken out lately for easing import barriers include Eugene R. Black, president of the International Bank for Reconstruction and Development, Warren Lee Pierson, chairman of Trans World Airlines, Philip D. Reed, chairman of the General Electric Company, David Rockefeller, senior vice-president of the Chase National Bank, L. L. Colbert, president of Chrysler Corporation, W. Holway Hill, vice-president of Boston's State Street Trust Company, Harris McIntosh, president of the Toledo Scale Company, and M. P. Langdoc of the Eureka Williams Corporation. Referring to international trade, John S. Coleman, president of the Burroughs Adding Machine Company, has challenged businessmen to "practice the free competition we preach." Supporters of complete or nearly complete Free Trade as an eventual goal include a few of these men, apparently, and also—to name just a few—J. D. Zellerbach, president of Crown Zellerbach Corporation, John E. Raasch, chairman of the John Wanamaker stores, Kenneth Parker, chairman of the Parker Pen Company, Norman P. Davis of the Federal Reserve Bank of New York, and Roy A. Foulke of Dun & Bradstreet.

A speech on February 17, 1953 in which Henry Ford II called for eventual complete Free Trade has already made history. Mr. Ford wants "a new law without loopholes encouraging the most rapid possible elimination of all tariffs." He showed his sincerity by asking an end at once to the 10 per cent tariff on automobiles.

Another historic statement was issued in the fall of 1952 by the Detroit Board of Commerce, representing 6,000 industrialists. The Detroit Board called for "a Tariff Law consistent with the economic facts of our time—leading to the eventual elimination of all tariff barriers in the United States."

The great recent interest in "freer" trade or even complete Free Trade led Fortune magazine to entitle an article in its March 1953 issue "Free Trade Is Inevitable."

While perhaps an exaggeration, such a title shows that Free-Trade proposals are respectable nowadays and deserve serious thought.

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Two

The Nature Of Protectionism

TYPES OF IMPORT BARRIERS

Tariffs—schedules of duties on imports—are the traditional tools of Protectionism. A duty, if high enough, can severely restrict or even completely cut off imports of a commodity. Nowadays, however, most countries have import controls that make tariffs seem weak in comparison. An import quota directly limits the quantity of a commodity that may be imported during a given time period. The consumer does not enjoy a lower price just because a quota rather than a tariff limits the supply of an imported commodity to a certain amount: the spread between the world price and the local price only goes to privileged importers as a "quota profit" rather than to the government as a tax. Allotment of scarce import privileges is but one of the special problems arising under a quota system.

In comparison with most other countries, the United States has only a few import quotas. Still, imports of peanuts, rice, rice products, and certain fats and oils have been under quota since World War II. The famous "cheese amendment" to the Defense Production Act of 1951 added cheese and other dairy products to the list of goods under quota. The government's farm price support program has caused some of the situations seeming to call for import quotas: cheese and honey, for instance, have sometimes been imported at low prices from abroad while domestic output was sold to the government as surplus. Almond imports were put under quota in 1952 and filbert-nut imports in June 1953. On April 1, 1953, import quotas on dried milk, dried cream, dried buttermilk, and peanuts were set at zero; that is, these imports were completely forbidden. The "cheese amendment" to the Defense Production Act expired on June 30, 1953, but the quotas that it provided for have been extended under authority of other legislation. There is a lot of agitation these days for import quotas on petroleum products, and the chairman of the National Labor-Management Council on Foreign Trade Policy has suggested quota protection as a substitute for tariff protection on a great many products.

Unlike most countries, the United States does not use *exchange control.* Under exchange control, exporters must sell the foreign money they earn to a government agency at an official price; and people who need foreign money can get it only according to strict rules. This foreign-exchange rationing is very effective in controlling not only imports, but also foreign travel, foreign lending, and all other transactions involving payments abroad. The combination of exchange control, quotas, and tariffs that many countries enforce these days amounts to very rigid, and in many respects discriminatory, control over almost all dealings between their own people and foreigners.

CUSTOMS COMPLICATIONS[1]

The complications and arbitrary enforcement of United States customs laws harass importers. The Smoot-Hawley Tariff of 1930, still in effect, says that every article not specially listed should be taxed as the article it most closely resembles. Doubtful articles are classified in whatever way makes the duty the highest. Zealous customs officials, until overruled by the Customs Court, taxed radar equipment at 65 per cent of its value as clock-like measuring devices rather than at 15 per cent as electrical goods. Finding small lengths of elastic braid between the linings and outer material at the back of some British raincoats, officials taxed the coats not at 10 per cent as raincoats but at 45 per cent as “articles in part of braid.” Importers of men’s evening clothes must import the trouser braid separately and sew it on later to keep the clothes taxable at 25 per cent as suits rather than at 45 per cent as braided articles. The lace and fringe classifications of the tariff law are worded with what *Fortune* magazine calls “predatory inclusiveness.” Accordingly, fringed rugs pay a 45 per cent duty rather than the regular 30 per cent duty. An importer of cheesecloth for use in making cheese had to carry his case through the Court of Customs and Patent Appeals when customs officials considered the reinforcement at the edges of the cloth to be a “fringe,” presumably ornamental. Jewelry ordinarily pays a 55 per cent duty; but when customs men can classify it as “artificial flowers, fruits or leaves,” it pays from 60 to 90 per cent. Upholstered chairs must sometimes pay a duty as “wool.” “Animate” spring-wound toys pay a 25 per cent duty, while “inanimate” toys pay 50 per cent. In a recent Customs Court trial, the government, to collect the higher rate, claimed that a toy policeman on a motorcycle was “inanimate,” pointing out that the spring motor turned the motorcycle wheels and not the policeman himself. Since synthetic rubber contains both rayon and carbon black, the customs men get the highest possible duty in each case by classifying truck tires as rayon and passenger-car tires as carbon black. Customs officials, learning that pingpong balls can be fired from a toy pistol, have raised the duty from 10 to 95 per cent by reclassifying the balls as “ammunition.” Following a rule for classification by “material of chief value,” the customs men once taxed a recording of famous church bells imported by a radio network, not as a record, but as “church bells and gongs.”

Since the tariff law provides several different complicated systems of appraising imports dutiable according to value, the result is sometimes fictitiously high. When the University of Chicago Press imported 1,000 copies of *A Reverse Index of Greek Nouns and Adjectives,* the customs men assessed the book at a cost-of-production value of $50 per copy instead of at the $6 cost-of-production value claimed by the Press. When the Kelvinator people imported for their own files a technical film in Spanish made in Canada for Latin America, they valued it at the cost of reprinting. The customs appraiser valued the film at the cost of production and assessed a large penalty for undervaluation.

As just implied, the law forced an importer to declare a value on his goods. If he played safe and declared a value that turned out to be higher than the official appraisal, his own figure stood and he got no tax refund. But if his own value turned out lower, he had to pay, besides the regular duty, a stiff fine proportional to how much the official appraisal exceeded his own. If the importer guessed less than half the final value, his merchandise was subject to forfeiture as a presumtively fraudulent entry. As *Fortune* summed up this unfair arrangement, which prevailed until recently, the importer was presumed to be a liar unless proved a fool, in which case his estimate was preferred to that of the customs appraiser.

Delays in customs sometimes cost importers dearly. Customs men held up some specially-designed stadium boots being imported for the Christmas market while trying to decide whether their "component material of chief value" was the crepe-rubber sole, the leather upper, the wool lining, or the rayon sock lining. The decision finally came through in February! A shipment of women's coats from Holland was delayed three weeks while officials wondered whether to charge duty according to the wool or the buttons. Some treacle tart (molasses pie) from England was held up because a customs inspector said there was no such thing as treacle. An important cause of delay on goods to be valued at their cost of production is that officials may have to make cumbersome investigations of production processes in the exporting country itself.

Even if an importer succeeds in getting his goods released from customs while the officials make up their minds, he risks being billed later for additional duties. An Oregon linoleum firm bought $325 worth of asphalt floor tile from a Canadian manufacturer, paid the estimated duty of $97.67, laid the floor, and collected from the customer. Meanwhile, chemists for the Customs Service found that the tile contained synthetic resins making it fall into a higher duty classification. The American firm got a bill for an additional duty of $949.05, wrote off the loss, and stopped importing asphalt tile. Changes such as this sometimes wipe out an importer's profit on merchandise sold to consumers months or even years before. Hearings in 1952 on a proposed customs simplification bill turned up some cases in which the final duty assessment was not made until ten or more years after the original importation.

Such disputes and delays in customs classification and valuation are by no means rare. At the end of 1952, 723,000 import entries had not been finally decided upon. Delays of two to four years are common. By early 1953 about 146,000 classification and valuation cases were clogging the Customs Court.

The customs regulations harass importers in still other ways. Imports of Dutch bricks were discouraged by the requirement that each brick be stamped "made in Holland." To enter the United States at a duty of "only" 40 per cent, even a surgical needle would until recently have had to bear the names of its maker or purchaser and of the country of origin die-sunk conspicuously and indelibly on the outside. Twenty thousand bags of cocoa from British possessions in Africa once had to be sent back to Liverpool because they were labeled in French. A customs man once kept a shipment of boxed candy from the Netherlands out of the United States because, although the net weight was clearly printed on each label, he considered the appearance of the package "misleading."

A British delegate to the 1953 Congress of the International Chamber of Commerce in Vienna had a field day displaying the mountains of red tape that confront an exporter to the United States. Before World War II, a shipper had to fill out eight documents telling what he was shipping and its value. Now he must fill out 185 documents, weighing nearly 4 pounds.

Thirty-five bales of hops imported from Yugoslavia by a St. Louis brewery figure in an example of just plain unfairness on the part of the U. S. Government. These bales had accidentally got soaked with oil during the ocean voyage, turned out to be wholly worthless, and were finally burned under the eyes of the customs authorities. The importer appealed the duty assessment, claiming that the goods were a nonimportation (should be treated as if never imported). Yet even the Court of Customs and Patent Appeals ruled against him.

The many examples cited above bear out the observation of the Detroit Board of Commerce that "some customs officials continue to look upon importers as businessmen engaged in a type of semilegal skulduggery that is to be discouraged at all cost." True, reform of some of the worst customs complications is proposed now and then. But these complications illustrate a Protectionist mentality that can hardly be circumvented but must be fought head-on.

UNSTABLE TRADE BARRIERS

Aside from the restrictiveness of American tariffs and customs regulations, their instability is a serious barrier to trade. "Escape clauses" in trade agreements and provisions of the Agricultural Adjustment Act and other laws permit tariff increases or quota cuts by administrative as well as Congressional action. Although our foreign-aid officials had been urging the Danes, French, Dutch, and Italians to increase cheese production and so earn more dollars, Congress tacked the "cheese amendment" onto the Defense Production Act. Other products getting tighter tariff or quota protection in recent years include dried figs, felt hats, almonds, and filberts. Recently, in order to raise the duty from 25 to 35 per cent, the customs officials have been trying to declassify dehydrated garlic powder, dehydrated kibbled onions, onion powder, and mustard seed as spices and reclassify them as prepared vegetables or vegetables reduced to flour. President Eisenhower has been faced with the task of deciding on recommendations by the Tariff Commission for higher duties on briar pipes and silk scarves. In recent years the Tariff Commission has also investigated proposed tariff increases on many other products, including motorcycles, bicycles, wood-wind musical instruments, garlic, chinaware, clothespins, glacé cherries, fish, rosaries, and even pregnant mares' urine. Agitation has been going on in Congress for higher tariffs on lead, zinc, tin, mercury, and antimony. It is important to realize that trade is discouraged not only when tariffs or quotas are actually tightened but also when such action is expected or feared. Foreign exporters whose very success might provoke higher duties rightly wonder whether it is a worth-while gamble to spend money and sales effort making business contacts and developing new markets in the United States.

THE "BUY AMERICAN" IDEA

Another example of Protectionism is the so-called "Buy American Act," a hodgepodge of legislation dating back to the depths of the depression in 1933. As interpreted by administrative regulation, this act requires Federal departments and agencies buying goods for government use to prefer American over foreign suppliers unless the American bid exceeds the foreign bid by 25 per cent plus the amount of import duty. Exceptions to this rule are seldom made. In one instance the Army split a contract for microscopes evenly between domestic and foreign suppliers, although the bid of an Italian company was 23 per cent below the two American bids. In the spring of 1953 the Defense Department rejected the low bid of an English company on six or seven million dollars' worth of generators and transformers for the Chief Joseph Dam power project. Yet the English price would have saved nearly a million dollars, not counting an additional $681,000 that the government would have got in import duties on the equipment. (Newspaper accounts suggested that the government's concern about differences between specifications of the English and American equipment was an after-thought; Army Engineer officials were quoted as saying that the "Buy American" policy was the only real issue. After rejecting the first set of bids, the government received another set and awarded the English company a fraction of the original contract.) Laws in the Buy-American spirit govern spending of Rural Electrification Administration loans, Federal Housing Administration funds, and merchant-marine subsidies. The Defense Department Appropriation Acts for the fiscal years 1952 and 1953 give preference to American-made food, clothing, cotton, and wool products. The Marshall Plan and Mutual Security Acts require half the goods bought with foreign-aid dollars to go in American ships despite lower freight rates on foreign ships.

All such laws harm the American public in at least two ways. First, they raise the cost of government purchases; if it were established government practice to buy from the cheapest source, many domestic bids would no doubt be lowered to meet foreign competition. Unnecessarily high costs require either higher taxes or bigger government budget deficits than otherwise. Second, such Protectionist laws hamper foreigners in earning dollars and so contribute to the need for foreign aid at the expense of the American taxpayer.

THE PROTECTIONIST MENTALITY

Protectionism reveals its nature very clearly in all the measures described above. Unwittingly, Secretary of Agriculture Benson gave another good example of Protectionist thinking in his testimony before a Senate committee in April 1953. Mr. Benson cited a cargo of farm products found to be nearing American shores. Existing laws were so unwieldy, complained Mr. Benson, that the ship successfully landed its goods before an embargo could be ordered!

Free Trade means letting people buy and sell as they see fit, abroad as well as at home. Protectionism means using the force of government to keep people from trading as they see fit or to fine them for it. Import barriers and naval blockades have the same objective—to block trade. Protectionism protects us not against foreigners but against ourselves—against our own desires to make advantageous purchases. The executive secretary of the California Art Potters Association expressed matters just backwards when he told the Senate Finance Committee on February 27, 1951 that tariff reduction retards the expression and development of a truly American art. Is there any reason or justification for our Government to force American women to look to some foreign country for style and utility in ceramic household items? Why must such household articles be a reflection of European or Oriental ideas and tastes? There can be no American artware unless the industry is permitted to survive and grow. The domestic industry does not seek special favors or grants or subsidies. We merely ask that our Government be as considerate of our present and future welfare as it is of our foreign competitors.

Contrary to what the witness says, tariff reduction—and this would hold true all the more for Free Trade—does not "force American women to look to some foreign country for style and utility in ceramic household items." Free Trade does not force; it permits. It permits people to look abroad or at home or anywhere they wish for pottery. It is Protectionism that uses force: it penalizes buyers of imported pottery to make them buy California pottery instead. The pottery witness is wrong again in saying that his "domestic industry does not seek special favors or grants or subsidies" from the government. Special favor is just what he does seek! He wants the government to shunt customers his way by blocking them off from other producers who might serve them better. He evidently dislikes the pattern of economic activity that would prevail in the United States if workers and property owners were left free to use their abilities, capital, and resources in whatever ways best met the demands of uncoerced consumers. No; like a typical Protectionist, he sees the need for governmental economic planning—piecemeal planning through taxes on imports.

Protectionism resembles a kind of governmentally-planned partial destruction of transport facilities. Railways, planes, trucks, ships, and other improvements in transportation cheapen the cost of getting useful goods from faraway places. Using the example of imports from Belgium into France, Frederic Bastiat noted over 100 years ago that

between Paris and Brussels *obstacles* of many kinds exist. First of all, there is *distance,* which entails loss of time, and we must either submit to this ourselves, or pay another to submit to it. Then come rivers, marshes, accidents, bad roads, which are so many *difficulties* to be surmounted. We succeed in building bridges, in forming roads, and making them smoother by pavements, iron rails, etc. But all this is costly, and the commodity must be made to bear the cost. Then there are robbers who infest the roads, and a body of police must be kept up, etc.

Now, among these *obstacles* there is one which we have ourselves set up, and at no little cost, too, between Brussels and Paris. There are men who lie in ambuscade along the frontier, armed to the teeth, and whose business it is to throw *difficulties* in the way of transporting merchandise from the one country to the other. They are called Customhouse officers, and they act in precisely the same way as ruts and bad roads. They retard, they trammel commerce, they augment the difference we have remarked between the price paid by the consumer and the price received by the producer—that very difference, the reduction of which, as far as possible, forms the subject of our problem.

In truth, I often seriously ask myself how anything so whimsical could ever have entered into the human brain, as first of all to lay out many millions for the purpose of removing the *natural obstacles* which lie between France and other countries, and then to lay out many more millions for the purpose of substituting *artificial obstacles,* which have exactly the same effect; so much so, indeed, that the obstacle created and the obstacle removed neutralise each other, and leave things as they were before, the residue of the operation being a double expense.[2]

As Bastiat implied, tariffs are "negative railways." William Graham Sumner showed a similar insight in entitling one of his books *Protectionism, the -Ism which Teaches that Waste Makes Wealth.*

As Henry George wrote,

Protection calls upon us to pay officials, to encourage spies and informers, and to provoke fraud and perjury, for what? Why, to preserve ourselves from and protect ourselves against something which offends no moral law; something to which we are instinctively impelled; something without which we could never have emerged from barbarism, and something which physical nature and social laws alike prove to be in conformity with the creative intent.[3]

Such is the contrast between Free Trade and Protection. Perhaps a case can be made out in favor of Protection; we shall examine the Protectionist arguments later on. First, however, let us consider the positive case for Free Trade.

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Three

The Positive Case For Free Trade

TRADE AND PRODUCTIVITY

The economic case for Free Trade is quite the same as the case for technological progress. Both increase the output of useful goods and services that a country can get from its labor and resources. "The general case for freedom in international exchange is like the case against putting sand in the gears of a machine."[4] In particular, Free Trade, like improved transportation, promotes interregional specialization and increases through trade the results that a country gets from its productive powers.

Iowa raises corn and hogs, Virginia grows tobacco, and Massachusetts makes shoes. Iowans get their tobacco and shoes from Virginia and Massachusetts, paying in part with money earned by selling corn and hogs outside the state. The people of Virginia and Massachusetts likewise import many products, paying in part with products they do make. Why does such trade take place? Why, instead, don't the people of each state make at home all the things they possibly could? Clearly, because that would be wasteful. Everybody understands the benefits of specialization and trade among regions of a single country.

The benefits of specialization and trade among countries are no different. International trade is a subject of special interest only because migration is more restricted between than within countries, because there are often better statistics on international than domestic trade, because special study is necessary to understand the use of different currencies in international trade, and because government interferences with international trade raise issues requiring special discussion. These minor differences do not change the fact that international trade merely extends the principles of interregional trade. A boundary line does not affect the basic principle: specialization and trade benefit the people who take part.

Benefits are possible because regions and countries differ in their advantages in producing various goods. Different advantages arise from differences in climate, soil conditions, and mineral resources, in human abilities and skills, in accumulated stocks of capital equipment, in the relative abundance of various human and natural resources, and in political and social climate. Even one of the most prominent American Protectionists understands this:

The theory of free trade is extremely simple and attractive. Each country should expend its productive energies in those fields for which it is best suited by soil, climate, resources, manpower, skill, etc., and buy from other countries the goods in the production of which they, in turn, enjoy particular advantages. In this way presumably all productive energies everywhere would be employed to the highest advantage. A maximum of international trade would thus spring up, to the maximum advantage of all people.

But then the Protectionist shows that his understanding is sadly incomplete:

It is perhaps unkind to ask just how countries or areas that enjoy no outstanding advantages, such as do exist in the world, would fare under such conditions of trade. To whom, for example, would they sell? How could their producers survive competition from those countries or areas that are economically favored and well developed?5

COMPARATIVE ADVANTAGE

The answer lies in the Principle of Comparative Advantage. For trade to benefit both a particular country and the outside world, the country need not have an absolute advantage over the outside world in producing some goods and an absolute disadvantage in producing other goods. Even in the extreme case where the country was absolutely less efficient than the outside world in producing all goods, mutually-beneficial trade could still take place. Conversely, even if the country were absolutely more efficient than the outside world in producing all goods, it could still benefit from trade. As long as its degree of inferior efficiency (or superior efficiency) were greater for some goods than for others, the country would import the goods in which its efficiency was most inferior (or least superior) and export the goods in which its efficiency was least inferior (or most superior).

A simple example involving two countries and two goods will help make this principle clear. Suppose that one country, Superia, is more efficient (in some absolute sense) than another, Inferia, in producing both wheat and cloth. Superia’s labor and resources can produce 600,000 bushels of wheat plus 500,000 yards of cloth per year, or more of either product at the cost of some of the other. Since more labor and resources go into producing a yard of cloth than a bushel of wheat, a shift of labor and resources between industries will yield 3 more bushels of wheat for each yard of cloth given up, or ? yard more of cloth for each bushel of wheat given up. Superia’s substitution cost ratio is thus 3 bushels of wheat for 1 yard of cloth (1 wheat for ? cloth).

In Inferia, the available labor and resources can produce 400,000 bushels of wheat plus 300,000 yards of cloth per year. Because of the inefficiency and disadvantages besetting Inferia, wheat production and cloth production both take more labor and resources per bushel or yard than in Superia. However, Inferia’s relative disadvantage is worse in wheat than in cloth: a shift of labor and resources between industries will yield more of one product and less of the other at a substitution cost ratio of 2 bushels of wheat for 1 yard of cloth (1 wheat for ½ cloth). Thus the substitution cost ratios differ in the two countries, setting the stage for mutually beneficial trade.

The following table summarizes the situation before trade takes place.

	WHEAT PRODUCTION AND CONSUMPTION	CLOTH PRODUCTION AND CONSUMPTION	SUBSTITUTION COST RATIO
Superia	600,000 bushels	500,000 yards	3 wheat = 1 cloth
Inferia	400,000 bushels	300,000 yards	2 wheat = 1 cloth

Now international trade opens up. Since the substitution cost of cloth in terms of forgone wheat is greater in Superia than in Inferia, Superia imports cloth and pays with wheat. The *terms of trade* between wheat and cloth must be somewhere between the substitution cost ratios of the two countries; let us suppose that 2½ bushels of wheat exchange for 1 yard of cloth. These terms permit Superia to get cloth by giving up less wheat and Inferia to get wheat by giving up less cloth than before.

Suppose that the people of Superia cut their yearly cloth production by 100,000 yards from 500,000 to 400,000 yards and, in accordance with their substitution cost ratio of 1 cloth = 3 wheat, expand their wheat production by 300,000 bushels from 600,000 to 900,000 bushels. The people of Inferia cut their yearly wheat production by 240,000 bushels from 400,000 to 160,000 bushels and, in accordance with their substitution cost ratio of 1 cloth = 2 wheat, expand their cloth production by 120,000 yards from 300,000 to 420,000 yards. We further suppose that Superia trades 275,000 bushels of wheat a year to Inferia for 110,000 yards of cloth, in accordance with the terms of trade of 1 cloth = 2½ wheat. The following table summarizes the new situation.

	WHEAT PRODUCTION, TRADE AND CONSUMPTION, BUSHELS			CLOTH PRODUCTION, TRADE AND CONSUMPTION, YARDS		
Superia		900,000	produced.		400,000	produced.
	Less	275,000	traded away.	Plus	110,000	got by trade.
		625,000	available for home consumption.		510,000	available for home consumption.
Inferia		160,000	produced.		420,000	produced.
	Plus	275,000	got by trade.	Less	110,000	traded away.
		435,000	available for home consumption.		310,000	available for home consumption.

International trade thus lets Superia's people consume 25,000 more bushels of wheat and 10,000 more yards of cloth than before. Inferia's people can consume 35,000 more bushels of wheat and 10,000 more yards of cloth. Both countries clearly gain. That one country is absolutely less efficient than the other in producing both goods does not matter.

Some side points must now be mentioned: (1) Under the assumed conditions, international trade would expand even further than shown here; for as long as the substitution cost ratios remain different in the two countries and neither country is yet fully specialized on one product to the exclusion of the other, further specialization yields further gain. (In reality, changes in substitution cost ratios as specialization went on might well prevent *complete* specialization.) (2) A country's consumers might take the opportunity offered by international trade to have somewhat less of one product but much more of the other than before. Judged by consumer demand, this result would also be preferable to the situation before trade. (3) Both countries gain by trade, but how the gain is shared depends on just where between the substitution cost ratios of the two countries the terms-of-trade ratio falls, and this depends on demand as well as cost conditions. (4) Transportation costs would, just like tariffs, limit the opportunity for beneficial specialization and trade.

Our illustration of the Principle of Comparative Advantage is admittedly very simplified: it considers only two countries and two commodities and postpones consideration of money prices and wages. The simplifications merely make for clarity and are in no way essential to the conclusion. We assume particular quantities and ratios, for instance, only because algebraic generalization would be harder to understand than definite numbers. It is easy to scoff at such demonstrations as "theoretical"; but, significantly, the scoffers are often precisely the people who most need enlightenment. Actually, the Principle of Comparative Advantage is beyond dispute. Countries where production is efficient and where it is inefficient can all gain by specialization and trade, just as all people gain in the following two examples: An expert surgeon who was also an expert instrument-washer would still gain by sticking to his greater specialty and hiring somebody to wash his instruments for him, even though the assistant might be slower than the surgeon himself. Similarly, a lawyer who was also an expert typist might gain by sticking to legal work and leaving the typing even to a typist slower than himself.

One point remains to be cleared up. Practical businessmen don't know or care anything about Comparative Advantage and don't need to: they want to buy where *money prices* are lowest and sell where *money prices* are highest. How, then, can Inferia, with its generally inefficient production, hope to attract any foreign customers and so take part in international trade? The answer lies in a generally low level of wages and other incomes ("low," that is, as translated through prevailing currency exchange rates and compared with wage levels in more efficient countries). Low wage levels—the famous "cheap labor"—permit Inferia's businessmen to price their goods low enough so that the goods in which their country has the least disadvantage can actually find foreign markets. Low wages are an inevitable result of Inferia's inefficient and disadvantaged production; but they are also what enables Inferia to export the products in which it has the least disadvantage and so earn the foreign exchange needed to import the products in which it has the greatest disadvantage. Low wages permit Inferia to share the benefits of international trade and so to have less poverty than otherwise.

As we have already seen, Superia also gains from international trade, even when trading with an inefficient, "cheap-labor" country. If Superia's government shut out imports because they were made by "cheap labor," it would harm its own people as well as the Inferians. It would be equally foolish for Superia to restrict trade because Inferia had an "unfairly depreciated currency." The difference in wage levels between Superia and Inferia—wages being translated through the exchange rate into a common currency—is necessary to allow the product price relationships that lead profit-seeking businessmen to import and export and so secure for the people of all countries involved the benefits explained by the Principle of Comparative Advantage. Superia's government would also be foolish to take a shrinkage of particular home industries as evidence of need for tariff Protection. As our numerical example showed, such a shift of labor and resources out of the industries in which Superia has the least superior advantage is an essential part of the process of benefiting from international specialization and trade.

OTHER ECONOMIC GAINS

Free Trade yields still other benefits besides those explained by the Principle of Comparative Advantage. While Protectionism splits the world into many little national markets, Free Trade links markets together. A market broadened by trade will often encourage low-cost production of particular goods. Furthermore, Free Trade makes large-scale production possible with much less danger of monopoly than under Protection. Even if a country had only one or a very few companies in a particular industry, their fewness would not matter much under Free Trade: competition from imports would block monopolistic pricing. Protectionism, by contrast, holds an umbrella over at least tacit monopolistic price agreements. Even arrangements with foreign competitors become more practical when tariffs guard monopoly in the home market. Restriction of competition by a Protectionist government also gives some respectability to concerted action by erstwhile competitors—concerted action not only in the market but in the realm of political pressures. There is some truth in the maxim, variously attributed to President Cleveland and to the sugar magnate Havemeyer, that "The tariff is the Mother of Trusts." In a Free-Trade country, though, actual or potential competition from abroad would teach home producers to rely on improvements in their own efficiency rather than on monopolistic activities. People who worry about business monopoly in the United States would do well to fight against such governmental restrictions on competition as the tariff.

"As far as Ford Motor Company is concerned," said Henry Ford II in his famous Free-Trade speech of February 1953, "we intend to meet foreign competition in the marketplace and not in the halls of the Tariff Commission." Mr. Ford also quoted a statement made by his grandfather, Henry Ford, in 1930 and still highly relevant today:

Business thrives on competition. Nobody does his best if he knows no one is competing with him. Comfortably tucked away behind a tariff wall which shuts out all competition and gives industry an undue profit which it has not earned, the business of our country would grow soft and neglectful. . . . We need competition the world over to keep us on our toes and sharpen our wits. The keener the competition, the better it will be for us . . . Instead of building up barriers to hinder the free flow of world trade, we should be seeking to tear existing barriers down. People cannot keep on buying from us unless we buy from them. . . . As for a tariff wall to shut out foreign goods, I feel certain we could hold our own without any wall at all. . . . Why not let those countries which can produce these things better than we, do so, while we turn our attention to the production of things in which we excel. That would provide work for everybody to do the world over, and in exchange of these products world trade would thrive, bringing busy times and prosperity for us all.

Still another benefit of Free Trade is greater opportunity for random economic disturbances in various parts of the world largely to cancel each other out. Disturbances like a local crop failure or a local temporary glut of a particular product are much less serious in a world united by trade than in a local market largely isolated by Protectionism. The case for Free Trade is in this respect akin to the case for insurance. A loss spread over many policyholders through insurance premiums is less damaging than the loss that each person would otherwise risk bearing alone in full. Similarly, dilution of local economic disturbances is a real advantage of Free Trade.

Imagine an extreme case of Protectionism. If a country benefits from Protection against cheap foreign goods, why shouldn't each state also protect home markets for home producers? Suppose that high tariffs forced New Yorkers to grow their own cotton. Suppose that high tariffs kept the Michigan automobile industry from selling in all states, and that most states had to have little automobile industries of their own. Think how much more automobiles would cost because of lesser opportunities for economical mass production. Think of the local monopolies that would prey on consumers if producers in each state enjoyed Protection against out-of-state competition. Think of how much more serious local crop failures and the like would be if trade among the states were restricted. Well, the benefits that the United States would get from free world trade are of the same sort as those that each state now gets from Free Trade within the country.

It is the consensus of opinion among American economists that the phenomenal growth of our industries has been due not so much to our protective tariffs as to free trade among our states, which has created a continent-wide market and made mass production possible. Europe, cut up into a number of relatively small areas surrounded by tariff walls, has limited markets unable to absorb the large volume of mass production industries. As a result, the United States has the world's lowest production costs in the face of the highest wage scales.[6]

FREE TRADE AND GOOD GOVERNMENT

Considerations of political philosophy as well as of economics tell in favor of Free Trade. If Jones and Smith voluntarily exchange goods, both must expect to gain; and outside interference with their deal is hard to justify except for some special reason. If Brown now asks the government to interfere so that Jones will have to trade with him instead of with Smith, most people would probably agree that the government should not comply. What difference is there when exchanges get more complicated—when money is used and when many people, some of them foreigners, trade with one another? Why doesn't an American have just as much right to buy English pottery as, say, to trade his wheat for another American's cow? Maybe the principle is different, but the burden falls on the Protectionist of justifying one kind of interference and not the other.

Most people do not consider importing wrong. Even some quite respectable Americans returning from foreign travel apparently do not consider it immoral (though illegal) to smuggle some purchases past the customs officers. Should a government prohibit or limit or penalize something not morally wrong, especially when, as is true of import barriers, an intelligent person can see that such action favors special interests at the expense of the general public? As Henry George wrote,

To make that a crime by statute which is no crime in morals, is inevitably to destroy respect for law; to resort to oaths to prevent men from doing what they feel injures no one, is to weaken the sanctity of oaths. Corruption, evasion and false swearing are inseparable from tariffs. Can that be good of which these are the fruits? A system which requires such spying and searching, such invoking of the Almighty to witness the contents of every box, bundle and package—a system which always has provoked, and in the nature of man always must provoke, corruption and fraud—can it be necessary to the prosperity and progress of mankind?[7]

Fearing free competition as they do, Protectionists share to some extent the main attitude of socialists and other planners. Senator Malone of Nevada had things just backwards when, in his testimony before the House Ways and Means Committee on September 17, 1951, he labeled even advocates of mere customs simplification and timid tariff reduction as "Socialist plotters." On the contrary, it is the Protectionists themselves who, like socialists, distrust free markets. The typical Congressman is inconsistent in praising free enterprise in the abstract while using tariffs as a tool of government economic planning.

Always in a progressive economy some industries are growing and some are shrinking. In a free economy, the impersonal forces of the market guide these necessary and beneficial adjustments in the pattern of production in response to changes in technology and consumer demands. Protectionism partially replaces market forces by shifting competition into the political arena. Control over government policy becomes important to various economic interest groups.

Political struggle for special economic advantage makes for corruption—not mere petty bribery and graft, but the sort of thing that, because it is so familiar and is done openly on such a giant scale, is not commonly recognized as corruption at all. After all, to buy votes by dispensing special privilege to economic pressure groups really is corrupt, although people are not accustomed to think of it as scandalous. As Professor Henry Simons remarked, the kind of corruption that "stinks" has much to recommend it, relatively. Curiously, most people do not consider it morally wrong to do through law what they would consider it wrong to do personally. Yet why is it morally wrong to commit robbery with naked force, while all right to harm other people for one's own benefit through tariff agitation?

When pressure groups wield influence to get governmental grants of economic privilege, even upright statesmen may feel they must pander to group pressures to get re-elected. Intelligent discussion of issues and appraisal of candidates are sidetracked in the interplay of pressures and promises.

Henry Simons has truly written:

A nation which wishes to preserve democratic institutions cannot afford to allow its legislatures to become engaged on a large scale in the promiscuous distribution of special subsidies and special favors. Once this occurs, there is no protecting the interests of the community at large, and, what is more important, there is no protecting the political institutions themselves. Tariff legislation is politically the first step in the degeneration of popular government into the warfare of each group against all. Its significance for political morality is, moreover, quite patent. Against the tariff, all other forms of "patronage" and "pork-barrel legislation" seem of minor importance.8

Democracy, which is essentially a method of popular control over rulers by discussion and elections, is always in danger of being overburdened. To load government with more and more functions may complicate public issues beyond the understanding or patience of the typical voter and so make democratic control over government less and less workable. This is one reason why government should not bear the immense burden of regulating the myriad aspects of people's lives and businesses. Wherever decentralized or "automatic" decision-making can work, arrangements requiring continual positive government intervention should be avoided. Government should not have to manufacture agreement on matters whose very nature makes a genuine consensus unlikely. Government should confine itself, as far as possible, to policies that the citizens can discuss intelligently. Now, the free market decentralizes and keeps out of politics a far-reaching and important kind of decision-making. It is a shame, in my opinion, to sabotage by Protectionist measures such a great bulwark of democratic government and human freedom as the free market.

FREE TRADE AND PEACE

Free Trade would contribute not only to the health of democratic government but also to world peace. Protectionism injects government decisions into trade, makes business into diplomacy, widens the range of possible international frictions, and raises private frictions into intergovernmental frictions. Free Trade decentralizes decision-making in the field of international trade and cuts down the number of issues that could arise among governments. For example, world-wide Free Trade would end the problem of "have" and "have-not" nations. No nation would be cut off from raw materials or advantageous trade opportunities by lack of extensive territories. The real grievance of a "have-not" nation is not a lack of colonies, but rather that the "have" nations restrict trade with territories under their control. World-wide Free Trade and open-door policies would give people of all countries access to sources of supply and to markets on equal terms. Of course, there would still be "have" and "have-not" *people*—some men would own nickel mines and some would not—but possible tensions among governments would be fewer.

Free Trade is not, of course, *the* key to peace. Many experts feel that the existence of many separate national sovereignties is a standing invitation to war, and that drastic curtailment of national sovereignty must figure in any long-range program for peace. Curtailment of national sovereignty need not, however, only mean transfer of sovereignty to some world super-state. Some national power over individuals might be destroyed outright. An ideal worth striving for, or at least considering, is a world in which no nation has the power to impose compulsory military training or service, to impose public schooling provided the parent substitutes private schooling for his child, to stop emigration, or to limit freedom of speech, press, and religion. As a further check to government power, some limit to tax collections might also be considered. Such rules might be enforced by a limited world government with no other powers. The idea behind this suggestion is that wars are quarrels among governments as such. Limits to the functions and powers of governments would help keep quarrels small and on the inter-personal level.

Limitation of government interference with trade, travel, capital transfers, and currency exchanges is an essential part of any program to avoid quarrels among nations as such. Here Free Trade fits into a peace program. A further connection between Free Trade and peace is that international friendship will prosper when economic contacts are peaceful, mutually-beneficial private transactions rather than intergovernmental issues. Of course, permanent peace is at present a Utopian ideal; but that is no argument against working to make it practical some day. That ultimate goal is more likely to be reached when public opinion has become favorable to Free Trade beforehand.

UNILATERAL FREE TRADE

While the United States would gain less by adopting Free Trade alone than as one Free-Trade country among many, it would still definitely gain. As Henry Ford II said in the speech already quoted,

I want to make myself perfectly clear on the point. I am not urging a course of action which I feel would benefit others at our expense. On the contrary, that's just what I'd like to see us get away from. I am convinced that a considerable growth in our foreign trade—imports as well as exports—would be a continuing shot in the arm to our whole economy.

President Eisenhower spoke similarly on May 7, 1953 in favor of a more liberal American trade policy:

As we help other nations to be prosperous, to trade with us, we are not doing this purely from the standpoint of altruism.

We are working from the position of enlightened self-interest, while knowing that we, the greatest industrial power on earth, could not succeed unless we have trade with other nations.

American trade would expand less if the United States alone adopted Free Trade than if the whole world did so, but the resulting expansion would still be worth while: as the Principle of Comparative Advantage explains, more trade would make our available labor and resources yield us greater amounts of useful goods and services.

Free Trade would also yield the United States the benefits expressed in the current slogan "Trade, not Aid." The amount of aid that the United States had "loaned" or granted to all foreign countries since World War II was by mid-1953 approaching a total of $40 billion, of which by far the largest part had been "economic" rather than “military” aid. Significantly, the amount of aid is roughly equal to the excess of American goods-and-services exports over imports during the same period. Foreigners have apparently been unable to sell us enough goods and services to pay for their purchases from us. This condition—the famous “dollar shortage”—has been a leading (though by no means the only) reason for America’s foreign-aid programs. We Americans are inconsistent in keeping foreign goods out of the United States by tariffs and quotas and then making gifts to the foreigners because they cannot pay their own way in the American market. Free Trade, by contrast, would help foreigners earn what they buy from us. Savings on foreign aid would be an important benefit to the American taxpayer even if the United States alone adopted Free Trade.

The conviction is spreading, moreover, that dollars received via the gift route are psychologically dangerous dollars. Unilateral grants, regardless of the motive of the giver and the form in which they are given, tend to arouse resentment on the part of both the donor and the recipient.[9]

AMERICA’S OPPORTUNITY

American Free Trade would gain genuine good will for the United States in a way that continued aid could not do. As a Paris newspaper said, “Europe would prefer to ‘earn’ its dollars by exporting to the United States instead of continuing to receive them” as a gift.

The present American trade policy gives foreign countries good cause for dismay. Examples during just the last few years are many. The governments of Denmark, Canada, the Netherlands, Australia, and New Zealand formally protested against new or continued controls on United States imports of fats, oils, and dairy products. Peru protested a bill pending in Congress that threatened to raise the duty on tuna fish, and Secretary of State Acheson disclosed that the situation was menacing American relations with Japan also. The Uruguayan ambassador complained about an increased duty on wool tops from his country. Venezuela is worried about threatened new curbs on oil imports. In a speech in May 1953, the Chilean ambassador bitterly denounced Protectionist tendencies in the United States as creating “confusion and disorder” in South America. The Canadian government has been concerned about efforts in Congress to adopt a sliding-scale scheme of high duties on lead and zinc. The foreign countries hurt worst by recent tightening of several American import barriers have retaliated against American exports. Turkey raised her duties on typewriters, washing machines, refrigerators, and many other goods when we restricted imports of figs. Belgium withdrew her concession on American industrial wax in protest against a higher United States duty on fur used in trimming hats. The Netherlands countered our “cheese amendment” by cutting imports of American flour (thus the American wheat farmer suffers for the sake of the American dairy farmer).

American Protectionism plays into the hands of Communist propaganda. The delegate of Communist Poland to the United Nations Economic Commission for Europe argued in March 1953 that Western Europe could expect no economic help from the United States in the form of “Trade, not Aid.” With Communist information services eagerly seizing on all evidence of American Protectionism, the Polish delegate was able to make a plausible thesis that there is no hope of expanded trade within the Western world. The Soviet delegation to the United Nations Economic and Social Council has made similar propaganda about the Protectionism allegedly dictated by American monopolists. Eugene Varga, the Soviet economist, has predicted quarrels among capitalist countries as a result of intensified American Protectionism. Stalin predicted

that the sphere of application of the forces of the chief capitalist countries to the world resources will not expand but will contract, that conditions of the world market of sale for these countries will grow worse, and idleness of enterprises in these countries will increase. In this, properly speaking, there consists a deepening of the general crisis of the world capitalist system in connection with the disintegration of the world market.10

American Free Trade would give the lie to such charges and gleeful predictions by the Communists. It would be not only a solid contribution to the strength of the free world but also a dramatic gesture of unity and hope.

Free Trade would show that Americans practice as well as preach their belief in free private enterprise. But as things now stand, the *Manchester Guardian* can justifiably print: "The next [American] business man who comes here to tell us that we must be more willing to compete will be making himself a laughing stock. Willing to compete indeed!"

According to a *New York Times* correspondent, American trade experts on the scene trace some of the most influential pessimism about American trade policy to European officials with an intellectual vested interest. Such officials would really be delighted if the United States clung to high tariffs: this would apparently justify European governments in following socialistic policies.

The importance of Free Trade as a proof of American consistency and sincerity can hardly be overrated. Free Trade is an important aspect of a free economy in general. Foreign countries might in time copy a dramatic American example, to their own advantage as well as to ours.

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Four

The Reasons For Protectionism

PROTECTIONIST THEORIZING

Although the Free-Trade case looks strong, Protectionism has triumphed so far in the world of practical affairs. Doesn't this fact suggest some grave flaw in the Free-Trade case after all? Free Traders should, if they can, show why their arguments have met such widespread scorn in practice. That is what the following sections try to do.

It is unfortunate, as a matter of practical politics, that the Free-Trade case involves some abstract reasoning: to understand it, one needs some ability to think clearly.

The case for free trade is primarily rational and unspectacular. To appreciate it calls for a broader and deeper understanding of economics than most people possess, or care to acquire. But to the mass of the people, it seems plausible that, if imports are kept out, there will be more work for the home population—at least for specific groups; that domestic wages will not be endangered by the "starvation" wages paid abroad; that money will be kept at home; that domestic producers will have a better market for their goods. The most fallacious of the protectionist arguments are the ones which carry the greatest popular appeal.[11]

The typical Protectionist fallacies and half-truths can be stated forcefully and in a few words, while the answers to them tax the patience of the man in the street. The Free Trader is at a disadvantage in being, generally, too well-informed to use arguments as simple, appealing, and false as those of the Protectionists.

The Protectionist can exploit what J. E. Cairnes called "the prejudices of mere experience." He can point to "facts": here is an industry that has thrived under tariff Protection; here is one that has suffered after a tariff cut. When a particular industry thrives behind a tariff wall, the Protectionist can coolly ignore the accompanying diffused but, in the aggregate, more-than-offsetting harm done to consumers, exporters, and others. When a particular industry suffers or appears to suffer from a tariff cut, he can ignore the more-than-offsetting benefits. Precisely because such offsetting harm or benefit is by its very nature diffused, the Free Trader cannot "prove" it with spectacular "facts." The Free Trader can show the results of Protectionism by valid reasoning that can stand critical inspection, but his reasoning goes to waste on people too impatient or too dull to pay attention.

The Protectionist actually takes pride in his narrow viewpoint. He sticks to plain facts—clear examples of benefit from Protection or of damage from foreign competition. He does not concern himself with remote, intangible, *theoretical* consequences. Thank God, he is no impractical theorist who never met a payroll! If he happens to be a watch lobbyist, he must struggle for patience with the poor understanding of Congressmen who never had practical experience in retailing watches. If he is a fishing-tackle man, he pities the ignorance of trade-agreements negotiators who never had practical experience in manufacturing fishing tackle.12 He scorns the theorist's "over-all" view of the economic system and sticks to the down-to-earth case-by-case approach. In so doing, he refuses even to consider the decisive heart of the tariff controversy.

The plain man—I do not think this is an overstatement—calls a "theory" anything he does not understand, especially if the conclusions it is used to support are distasteful to him. . . . It is only because he does not understand "theory" that the plain man is apt to compare it unfavourably with "practice," by which he means what he can understand.

The practical man is apt to sneer at the theorist; but an examination of any of his most firmly-rooted prejudices would show at once that he himself is as much a theorist as the purest and most academic student; theory is a necessary instrument of thought in disentangling the amazingly complex relations of the external world. But while his theories are false because he never tests them properly, the theories of science are continually under constant test and only survive if they are true. It is the practical man and not the student of pure science who is guilty of relying on extravagant speculation, unchecked by comparison with solid fact.13

For all his vaunted realism, the Protectionist theorizes without knowing it. Furthermore, his haphazard theories are far less able to stand inspection than those of the trained theorists whom he scorns. The Protectionist sees the economic system as ever-threatened by unfair competition, cheap foreign labor, dumping, spreading pools of unemployment, and stagnation. Shaky as his theories are, they are the ones that carry weight among self-styled "practical" men. That is why it is necessary to study his theories—and more carefully than the Protectionist would like. The following discussion is unavoidably theoretical because the whole Protectionist case is theoretical—and sloppily so.

Space permits considering only the Protectionist arguments most commonly used today. Even these are numerous, but their mere number should not fool you into thinking that the Protectionist case must be strong. The very fact that the Protectionists, lacking even one or two really strong arguments, must pile weak argument upon weak argument itself casts doubt on their case. Furthermore, as we shall see, some of the Protectionist arguments contradict one another.

SAVING AN INDUSTRY

To judge from testimony at Congressional committee hearings, the most common Protectionist argument is that such-and-such an industry is suffering from "unfair" foreign competition and must be saved by a higher tariff or a tighter import quota. The typical witness points out how imports are underselling his product, how his sales are dropping off, and how his workers face unemployment. Very likely the witness will emote a little: his workers have rare skills acquired by a lifetime of specialized work in the widget industry; these widget workers are good, loyal American citizens, the backbone of the nation, who live along elm-lined streets in peaceful little towns, own their own homes, support the schools and churches, and have sons who fought in Korea. Congress must save their jobs. (Such stories are effective: the unfortunate widget workers are definite, specific people, while the vast majority who bear the diffused harm of Protectionism are nameless and forgotten.)

Congressmen are sometimes rightly skeptical about whether conditions really are as bad as the witness claims. But if evidence is produced, the typical Congressman regards the case for stronger import barriers as airtight. Secretary of Commerce Weeks exemplified the similar confusion of a great many people when he said, shortly before taking office, that "you cannot go on importing goods which hurt American business." Even President Eisenhower, in his first state-of-the-union speech, said that customs reform "must not ignore legitimate safeguarding of domestic industries, agriculture and labor standards." Senator Malone of Nevada, during a tirade against a Japanese microscope priced about 60 per cent below the equivalent American model, spoke as follows:

The point I make is this: We could buy the cheaper one and allow the Japanese and the Germans to manufacture all the precision instruments. It is a fine theory as long as you only have that one industry—it is not a large industry, not a large employer—but if you follow that through, you kill all the industries, and then the United States and all of our businesses are down to that same level.14

People who think like Secretary Weeks and Senator Malone are falling into the "fallacy of composition"—the fallacy of assuming that what is true of the part is necessarily true of the whole. For example, one person in a crowd can see a parade better by standing on a soap box; but it is wrong to conclude that everybody can see better if everybody stands on a box. Similarly, a particular industry may suffer from competitive imports, and the facts are plain to see: lost orders, idle factories, displaced workers. But if anyone concludes from this that the American economy as a whole is suffering and would benefit from Protection to the afflicted industry, he is committing the fallacy of composition. To protect one industry hurts consumers in the form of higher prices than otherwise and so may reduce their buying power as customers of other industries. It also hurts all industries into whose costs the Protected products directly or indirectly enter, whether as raw or semifinished materials, as tools, as means of transportation, or as items in the cost of living of their workers. Finally, by cutting the dollar earnings of foreigners and thus their ability to buy American goods, import barriers harm the businessmen and workers in American export industries. (In fearing that imports could kill off all American industries, Senator Malone evidently supposes that foreigners will give us all the goods we need free, taking no American goods in return. The idea is pleasant but absurd.)

The hearing before the House Ways and Means Committee on May 18, 1953 neatly displays a Protectionist venting his contempt for academic theory while he himself unwittingly indulges in save-an-industry theorizing built on the fallacy of composition. Congressman James B. Utt was questioning Mr. Peter G. Franck, an economist who specializes in international trade and who had just made a powerful case against Protectionism.

MR. UTT.

Mr. Franck, you have covered quite a range of subjects here. I would just like to ask whether you have ever been engaged in the production of petroleum?

MR. FRANCK.

I have not.

MR. UTT.

Have you ever been engaged in the production of lemons?

MR. FRANCK.

I have not.

MR. UTT.

Have you ever been engaged in the production of cotton?

MR. FRANCK.

I have not.

MR. UTT.

Have you ever been engaged in the production of lead and zinc?

MR. FRANCK.

I have not.

MR. UTT.

Well, we have had before us a solid stream of producers of these items, and they are all in trouble and they are all asking for help. It just seems that if we do not give them some type of protection, that we are going to destroy the American economy, and I think that your treatise on theory is beautiful, but I must say that I do not think it is practical.

Somebody should remind Congressman Utt that nothing can be correct in theory but wrong in practice (a theory that does not square with practice must have a flaw in it, in which case the objector need only point out the flaw) and that few things are so practical as a correct theory.

Arguments on behalf of industries damaged by foreign competition could apply no more illogically on behalf of industries damaged by technological progress. Henry George once asked: "Economically, what difference is there between restricting the importation of iron to benefit iron producers and restricting sanitary improvements to benefit undertakers?"[15] Why shouldn't the automobile industry have been suppressed to protect the buggy makers, whip makers, and horse breeders, not to mention the railroads? Why shouldn't we have suppressed movies, radio, and television to protect the vaudeville actors? Why shouldn't we have suppressed petroleum, natural gas, and hydroelectricity to protect coal miners and mine owners? Technological progress and international specialization through Free Trade are on a par: both are means to improve the standard of living that can be won from a country's labor and resources.

In detailing the woes of particular industries, Protectionists tacitly claim that adjustment to change is undesirable, and that an industry, once established, has a right to thrive indefinitely, regardless of efficiency or changing conditions. Protectionists forget that business deaths, as well as business births, are essential in a progressive economy. Protectionists show by their complaints that they do not understand a free economy and that they are economic planners at heart. One of the worst things about having adopted Protectionism in the first place is that the government has a bear by the tail. Every move toward a freer market touches off the clamor of vested interests. We may be thankful indeed that adjustments to technological progress never became political issues to the same extent as adjustments to international trade.

Protectionists forget that industries are not *ends* in themselves, but rather *means* for partly overcoming obstacles that stand in the way of human well-being. The purpose of a food industry is not to provide work—not, that is, to call forth effort—but to overcome hunger. The purpose of a clothing industry is not to exercise the brain and muscle of managers and workers but to overcome nakedness and shabbiness. The purpose of a transportation industry is not to employ labor but to overcome distance. Protectionists seem to approve of obstacles because overcoming them gives employment. Otherwise, why would Protectionists oppose food and clothing imports unless they approved of anything that kept hunger and nakedness difficult to overcome? To judge from the tariff on soap, Congress positively cherishes the dirt that supports the American soap industry. To judge from the tariff on fire hose, Congress considers arsonists public benefactors. To judge from the tariffs on medicines and surgical and dental instruments, Congress would deplore any improvement in the bodily or dental health of the American people. A consistent Protectionist would find it logical to encourage both the medical profession and the medical-supplies industry by a law against the sanding of icy sidewalks.

William Graham Sumner correctly pointed out that an industry dependent on Protection is hardly an industry in the usual sense of the word. It thrives only because government interference with the freedom of buyers has turned capital and labor out of other channels where they would otherwise have been more productive. A tariff enables the Protected industry to live like a parasite on consumers and on other industries. A Protected clothing factory is not so much a means of providing clothes as a means of making clothes more expensive behind a tariff wall than they would be under Free Trade. An industry dependent on tariff Protection exists at the sacrifice of other industries that would otherwise have used the country's labor and resources more efficiently in the ceaseless struggle against obstacles to human welfare. Sumner is right: a Protected industry is a nuisance. The bigger it is, the sadder it is.

Ironically, even though tariff Protection of a particular industry harms the general public, it need not permanently benefit the investors and workers in the industry. Competition at home gradually tends to bring abnormally high profit and wage rates in a particular industry down, at least relatively, to a more ordinary level. In the long run, Protection tends to expand a particular industry at the expense of others rather than to preserve abnormally high earnings for the people already in it. Only some kind of monopoly able to block new investment in the Protected industry would enable the people already in it to keep on benefiting indefinitely from their overcharging of consumers.

In summary, the argument that the alleged plight of particular industries justifies tariff Protection is just as weak as it is popular. If you understand the fallacies in this argument, you are less likely to sympathize with the people who use it than to deplore their efforts to enlist the power of government for their own short-run advantage at the expense of their fellow citizens.

NATIONAL DEFENSE

Another common argument for Protection is that certain industries are vital to national defense. We must not rely unnecessarily on imports of strategic products—so the argument goes—because enemy action might cut off these imports during wartime. It is better to protect the home industry even in peacetime so we will have it when we need it.

Unlike most Protectionist arguments, this one does not rest on wholly false reasoning. Still, it is far from conclusive. Against any supposed gain in strategic self-sufficiency must be balanced the loss in productivity and in real national income that barriers to specialization and trade impose. Such a loss means that fewer goods and services are available for consumption, investment, and defense. The greater the degree of national self-sufficiency that tariff policy aims at, the greater is this weakening in the country's economic and therefore military strength. Considering that a wartime interruption in strategic imports is merely possible—not certain—the case for accepting the *certain* economic weakening inflicted by Protection is even less conclusive. Incidentally, development of naval power great enough to safeguard shipping lanes in wartime might well cost less than the loss in economic power caused by a drive for self-sufficiency.

Since almost all industries have *some* use in wartime, all kinds of lobbyists can make some sort of superficially plausible plea for Protection of their own "strategic" industries. Gloves, pens, peanuts, pottery, and umbrella frames are just a few ridiculous examples of industries that in recent years have sought continued Protection on grounds of strategic importance. Even the lacemakers once called for more Protection than they were already getting on the excuse that they could convert their machinery in wartime to make mosquito netting. Clearly, the defense argument is often just a straw that special interests grasp at insincerely to bolster their pleas for privileged shelter against competition. Almost everybody thinks or pretends to think that his case is exceptional. Grant a single exception, and you loose a torrent of special-interest pressures.

The assumption is false that a government can know in advance just which weapons and industries will be most important in some possible future war. Constant technological change is a leading feature both of modern war and modern industry. Furthermore, modern industry has proved itself remarkably able to convert and reconvert between peacetime and wartime production. Incidentally, among the industries that, so far, have been most easily convertible are those in which the United States has a Comparative Advantage, such as automobiles, electronics, elaborate office equipment, and industrial machinery. These strategic industries typically do not need tariff Protection, and Free Trade would enlarge their peacetime markets. (By contrast, the industries that typically clamor for continued or increased Protection—handbags, pottery, fish, nuts, cheese, hats, wine, toys, and so on—can turn much less readily to war production.) The moral is that the United States should not partially freeze its industry by Protectionist policies into a pattern that might well prove, if war finally came, to be out of date—and all at the cost of a sure loss in real national income. Even from considerations of national defense, it would probably be wiser to adopt Free Trade and other policies contributing to general economic strength and to rely, if war cut off foreign supplies, on the conversion of peacetime industry to wartime purposes that would in any case be necessary.

Still, for the sake of argument, let us suppose that the government does know exactly what products it will need most in a future war, knows for sure that foreign supplies will be cut off, and knows that no domestic industry could switch quickly enough to making these things. Even if the government knew all that—which is impossible—even then Protective tariffs would not be the best answer. As one alternative, the government might stockpile enough strategic goods to last through a war. Not having to make the stockpiled goods, domestic industry could concentrate on lines of production in which it was relatively more efficient. Another alternative, even if the government felt it had to encourage strategic industries artificially, would be subsidies rather than tariff Protection. A tariff keeps a product price higher than it would otherwise be. The subsidy approach does not interfere with the comparatively low price set by import competition but enables the home industry to compete by making up for its relatively higher production costs with direct money grants. Since low prices ensure a wider market for the product than do high prices, the subsidy approach is clearly better if the government's aim really is to expand the industy's production and capacity. Besides that, subsidies are a more precise and flexible way to encourage an industry than the tariff. Subsidies can be withheld from types of production and even from single companies whose encouragement is unnecessary. Furthermore, there is good reason to believe that the public, in its double role as consumer and taxpayer, pays less for encouragement to particular industries through subsidies than through tariffs. Finally, the subsidy approach is a fairer way than the tariff approach to distribute the burden of supporting strategic industries. If such support helps defend everybody, why should special groups of consumers have to bear the whole burden in tariff-raised prices?

Even aside from all these reasons, the defense argument for import barriers applies especially little to present world conditions. On the contrary, freedom of trade from the barriers hampering it today would promote efficiency in using productive resources and so would greatly help strengthen the free world. In an open letter to the NATO Council made public in April 1953, 155 leading citizens of the United States, Great Britain, Canada, and France recommended

immediate steps to lower tariffs, eliminate quotas and other trade restrictions, simplify customs proceedings and free currencies to the end that the Atlantic nations may eventually become one financial and trading community.

The writers of the letter, feeling that these steps among others would be taken, in the event of war, urged "that they be taken now in order to prevent war." As the letter explained,

Better defense at lower costs depends as much, if not more, on the integration of our economic policies as it does on the integration of our defense policies. By wise economic co-ordination, we could so increase the combined national incomes of the fourteen NATO members that their combined defense costs would be a much smaller percentage of their incomes than it has been hitherto.

The more freely the United States and its allies can trade among themselves, the less they will feel the need to trade with the Russian bloc. Many stories have appeared in the newspapers lately about how the Communists are wooing our allies with offers on just those goods that bear the highest United States tariffs. Japan in particular must be allowed greater trade opportunities in the free world if she is not to be forced into close economic ties with Communist China.15a

Aside from such tangible considerations, the good will that Free Trade would win for the United States would help bring about spiritual solidarity among the peoples of the free world. As Mr. Harold F. Linder of the State Department told the Senate Finance Committee on April 22, 1952,

The relationship between a country's trade and its political orientation was a factor very much in the minds of the Soviet officials who planned the Moscow Economic Conference. They were very much aware of the fact that one of the most effective gestures of good will which one country can extend to another is an offer to take its goods on a reasonable basis. They were aware of the converse proposition as well—that there are few things in international relations which generate political hostility quite as rapidly as an unwillingness to give another country a reasonable opportunity to trade. They already realize what we are only beginning to learn—that every national policy affecting foreign countries is a potential weapon in the cold war between the East and the West.

Finally, the defense argument for tariffs would be completely irrelevant in the peaceful world that we are aiming at. Free Trade, while not the decisive means to reach that ultimate goal, would help greatly.

EMPLOYMENT AND THE HOME MARKET

Import competition does, it is true, cut down job opportunities in some *relatively* inefficient American industries. Pointing to actual examples and ignoring the more-than-offsetting growth of relatively efficient American industries that gain by freer world trade, Protectionists often suggest that imports threaten the United States with *general* unemployment. We need high tariffs, they say, to avoid this mass misery. Often coupled with this argument is the slogan that we must keep the American market for American producers. For instance, Senator Wiley told the Senate on January 16, 1952 that "The American market is the greatest in the world, and necessarily it should be reserved basically for American producers. . . ." This "home-market argument," which in one form or another has long appeared in Republican Party platforms, was used at first to enlist the farmers in support of industrial tariffs. The idea was that tariffs make people in manufacturing prosperous and so improve the home market for farm products also. Gradually the argument grew to suggest that Protection which benefits any economic group, by improving its purchasing power, indirectly benefits all other groups.16 From there it is but a short step to the idea of tariff Protection for anybody claiming to need it.

In fact, of course, Protection for particular industries does more harm than good to people in others. Consumers lose through higher prices on imported goods. Exporters lose because import curbs deprive foreigners of opportunities to earn dollars. Still other industries lose because the tariff makes their materials and tools more costly or because tariff-raised prices in effect make their workers and customers poorer. The more all-embracing a tariff system becomes, the more do these repercussions tend to outweigh even the direct benefit that an industry gets from the tariff on its own products. A particular industry benefits most from a tariff only when it is the sole Protected industry. The idea of all-around Protection—of reserving the home market for all home producers—is full of contradictions.

As Henry George shrewdly noted, many people find the home-market argument akin to the idea that "We should keep our own pasture for our own cows." In truth, though, it is like saying that "We should keep our own appetites for our own cookery" or "We should keep our own transportation for our own legs."

Hence the proposition that we should keep our home market for home producers is simply the proposition that we should keep our own wants for our own powers of satisfying them. In short, to reduce it to the individual, it is that we ought not to eat a meal cooked by another, since that would deprive us of the pleasure of cooking a meal for ourselves, or make any use of horses or railways because that would deprive our legs of employment.17

The naïve employment and home-market arguments for Protection are prime examples of the "fallacy of composition," which we have already explained. While abandonment of Protectionism may trouble people in particular industries for a while, it does not follow that people in all industries will suffer. Protectionist victims of the fallacy of composition should try to explain just *how* unchecked imports can cause general unemployment and general damage to American markets. Are foreigners going to overwhelm us with their goods of all kinds, all for free, never asking anything in return? Or will they ask only dollars that they never mean to spend—dollars that our government and banks could easily create out of thin air? Far from being a disaster, that situation would be paradise. After all, we don't want employment and markets for their own sakes, but only as means of earning useful goods and services. It would be fine to get everything without effort: we could use the time saved from drudgery for science, art, literature, and other "higher things." In sober fact, of course, foreigners will never be kind or foolish enough to spare us the need for working. Foreigners won't send goods to our markets unless we send goods to theirs.

Imports (understood to include "invisible imports"—purchases of services) and exports (including "invisible," or service, exports) pay for each other. Thus, anything that cuts imports ultimately cuts exports. Despite the home-market theories, Protectionism does not gain any more markets for American producers than it loses. In fact, Protectionism causes a net loss of markets at home and abroad. The extent of a market is not merely a matter of land area or population but also of the wealth of the customers. There is no more an ultimate limit to the extent of markets than there is to human wants. The wastes of Protectionism cut down markets in the sense that really counts: they cut down real incomes and buying power. Free Trade, on the other hand, allows more efficient use of resources and raises productivity. Barring gross mismanagement of the money system, greater efficiency and productivity raise real incomes and let people buy from and sell to each other more actively. So Free Trade provides a net gain, not a net loss, in markets. Protectionism can gain markets for home producers only so far as we Americans keep giving our goods or the dollars to buy them with to foreigners (and even then the necessary taxes take buying power away from American customers). If getting rid of our produce and making work is all we care about—if we abhor getting paid back—we might as well simply dump goods into the ocean. Some Protectionist quacks do seem to think that a nation prospers by giving away or destroying its wealth.

In respect to unemployment as in many other respects, Free Trade is on a par with technological progress. Inventions shrank employment in the buggy industry but expanded it in the automobile industry. In the long run, technological progress raises productivity and real incomes and does not cause general unemployment. Free Trade works the same way.

In one sense, though, tariffs do create work. They create work just as anything that makes getting useful goods more difficult creates work. They create work just as would destroying machinery. They create work just as destroying trucks, planes, and railroads would create work in carrying freight on human backs. Frederic Bastiat's description of tariffs—"negative railways"—is apt. If work—hard, sweaty work—is all we want, there are countless ways of making it; the tariff is only one. As Bastiat suggested, Protectionists must be confused by some such false unspoken syllogism as the following:

The more men work, the richer they become;

The more difficulties there are to be overcome, the more work;

Ergo, the more difficulties there are to be overcome, the richer they become.18

In truth, of course, people want not work but the products of work. Progress consists not in using more and more work to get a given amount of products but in getting more and more products for a given amount of work. Free Trade is just like technological progress in making work more effective.

Despite all we have said so far, one rather sophisticated version of the tariffs-against-unemployment argument does have certain limited validity. An increase in tariff rates could cut down the imports of a country suffering from depression, thereby giving the country a surplus of exports over imports. For certain theoretical purposes, imports, like saving, can be thought of as a leakage from the country's stream of money income; exports, like investment spending, can be thought of as an injection into the income stream. So an export surplus achieved by higher tariffs would be a net injection into the country's income stream. The export surplus might even have a "multiplier" effect, raising yearly national income by more than its own amount. Another way of putting the whole theory is to say that an export surplus might bring more money into the country or into existence or else make the country's existing money supply get spent faster, or both. The extra spending would help bring recovery from depression and so reduce unemployment.

Several reservations must be made about this theory. First, the export surplus can last only a short time. In the long run, exports and imports pay for each other. We can have an export surplus only until foreigners use up their reserves of dollars or gold or only as long as we keep giving or lending foreigners the money with which to buy our exports. Second, tariffs cannot usefully be raised again and again. A tariff increase works only if the previous tariff level was comparatively low. Once tariffs have cut down imports severely, there is little room to make an export surplus by putting tariffs still higher. Third, import barriers to promote home employment are a trick that foreign countries can easily copy if they are stupid enough. If we try to "export our unemployment," other countries can retaliate. All countries can't have export surpluses at once. As the nineteen-thirties clearly showed, the main result is likely to be a wasteful over-all shrinkage in world trade.

More important, the very idea of import barriers as an unemployment cure shows ignorance of the nature and cure of depressions. Imagine—trying to become prosperous by getting rid of goods worth more than those you get! As J. M. Keynes once suggested, there is nothing that a tariff can do against unemployment which an earthquake could not do better. Depressions and the accompanying unemployment are essentially a matter of a shrunken money supply or of too-slow spending of money. The cure is to be found partly in correct monetary management—something that, unlike a tariff, does not interfere with business and with beneficial international specialization. Discussion of the relationship between depression, unemployment, and money would be out of place here. We should understand, though, that tariff tinkering to cure unemployment is way off the track.

People sometimes argue that a country should protect itself against "excessive" specialization and "excessive" dependence on foreign countries. The country needs import controls to "insulate" itself against foreign disturbances. Well, how much specialization is "excessive" is a matter of opinion. Interference with international specialization has a cost in a less efficient use of labor and resources and so in lower real incomes. Incidentally, well-developed international trade benefits a country by relieving dependence on just home supplies and home markets and by broadening markets, so giving more scope for temporary gluts and shortages of particular commodities in local markets to cancel each other out.

When the argument against "excessive" specialization, as applied to the United States, is not just the defense argument already discussed, it is akin to the employment argument. It is only a minor oversight of this argument that the danger to foreigners from our depressions is far worse than the danger of our catching theirs. The main objection is that depressions and their contagion are chiefly matters of the flow of money. The United States could quite well manage its own money supply so as to avoid depression at home, no matter what happens abroad (which is not to say that the United States need feel no ill effects when foreign depressions shrink trade opportunities). A powerful argument can be made that nations should have their own separate, independent monetary systems, with the various currencies *not* linked together at fixed exchange rates. As a safeguard against international contagion of inflations and depressions, this kind of "insulation" makes sense. But reliance on trade barriers shows complete misunderstanding of the problem.

CHEAP FOREIGN LABOR

One of the falsest but hardiest tariff arguments insists on Protection against the "unfair competition"—effective competition is always called "unfair"—of imports made by "cheap foreign labor." *Fortune's* issue of March 1953 quotes a Houston oil and cotton magnate as follows:

The only thing that made our country great is the protective tariff to protect us from the cheap labor abroad. Those people haven't developed in two thousand years. They've been letting the flies eat their children's eyes out all that time. If they take our tariff off, it's just a matter of time before the American people will be living like them.

Senator Malone warned the House Ways and Means Committee on January 26, 1951 that tariff cuts

will explode in our face. In other words, these imports from these low-cost-labor countries will just swoosh in, and the investments in our businesses will be gone.

The vice-president of the Onondaga Pottery Co., testifying right after Senator Malone, told the Committee that his industry faces what

is, in essence, purely a wages problem. The American employer cannot afford to pay American wages and sell in competition with the distressingly low wages paid in so many foreign countries. Currently the wages paid to American pottery workers in the vitrefied-china industry are about 4 to 4½ times wages paid English pottery workers, 6 times the rate paid German pottery workers, and 12 times the rate paid Japanese pottery workers.

Business Week for December 13, 1952 summarized the sentiment of the typical Protected American businessman as follows:

Tariffs are generally undesirable in that they antagonize our friends in foreign lands. Furthermore, if tariff cuts will reduce our foreign aid bill, I'm for them. But my own product needs tariff protection against cheap foreign labor.

David L. Cohn has justly mocked the cheap-labor argument in the December 1951 issue of the *Atlantic:*

We alone live decently or want to live decently. The British, as we know, have long subsisted on roast acorns and mist air of the fens. The French learned to cure Roquefort cheese in caves because they live in caves; no doubt they were animated by the malicious desire to flood us with cheap goods. Scandinavians, like circus seals, are content if you throw them a fish. Italians, of course, rank with Orientals. They exist on leftovers from yesterday's fried seaweed.

If the cheap-labor argument were true, American producers would need Protection most against the countries with the lowest wages—China, India, Haiti, and so on; and this is clearly not so. Low wages are a sign of low productivity. The relatively most efficient American producers, using advanced technology, can pay high wages and still produce at lower cost than foreign competitors. In fact, European producers have sometimes asked Protection against the competition of low-cost machine-made American goods.

But this answer does not meet the cheap-labor argument head-on. In its strongest version, this argument concedes that it is fine to import goods produced more efficiently abroad than at home, but counters that if the competitive advantage of imports rests on cheap labor rather than on superior efficiency, then international trade positively distorts the use of the world's labor and resources away from the theoretically-ideal pattern. The president of the American Watch Workers Union gave the argument this twist in his testimony before the House Ways and Means Committee on January 25, 1951:

. . . every economist teaches . . . that it is best to produce goods where it is most efficient and that inefficient industries have no right to survive. No one can disagree with this premise as it relates to efficiency, except that we can seriously disagree that an industry is efficient [inefficient?] simply because it has to pay the high-wage level of the United States and the competitor in a foreign country pays his people according to the low-wage standards of his country. Here is the crux of the problem.

Chairman Daniel A. Reed was not trying to be funny when in May 1953 he described his House Ways and Means Committee as "the forum where American citizens come to be heard about the impact foreign goods that come in here, made by cheap labor abroad, has on our domestic economy." His fellow committeeman, Representative Noah M. Mason, made this observation during the hearing on April 27, 1953:

We have just listened to the American Knit Handwear Association and the American Seafood Association and the Harley-Davidson Motorcycle Co. representative, and all three state that they represent an industry that is the most efficient in the world, as compared to the industries abroad. But they all three stated that they are being injured because of imports from abroad, not because they are more efficient to produce abroad but because of the difference in the cost of production. It is a question of low wages there, high wages here.

If our people are to compete against the people of other countries then we have got to cut our wages in half. And no one wants to do that.

In their *Monthly Digests* for May and June 1953, Stevenson, Jordan & Harrison, Inc., management engineers, say "that American business managers do not fear or want to restrict *fair competition*" but add

that competition is not fair when the cost of labor required to produce a commodity represents a major cost factor and the wages paid to the workers who produce that commodity in foreign countries are very much less than the wages paid in the U.S. to produce a similar commodity.

Inability to compete with imported goods is not necessarily an indication of inefficiency in domestic industry. Any test of efficiency on the basis of dollar costs here and abroad is an unfair and unsound test.

The error in such thinking is fundamental. For international trade to benefit all trading countries, a commodity need *not* be supplied only by the countries making it most "efficiently" (most "efficiently" meaning at lowest cost in terms of the amounts of labor and resources used, quite regardless of money costs, wages, and prices). On the contrary, as we have already learned from the Principle of Comparative Advantage, each country gains by specializing on the things in which it is *relatively* most efficient. A country that is inefficient in making everything gains by specializing on the products that it makes *least* inefficiently and importing the products that it would make *most* inefficiently. A country that is efficient in making everything gains by specializing on the products that it makes *most* efficiently and importing the products that it would make *least* efficiently (even though perhaps more efficiently, in an absolute sense, than the country where the imports come from). Suppose we Americans get watches by importing them and paying with goods we make still more efficiently. Since we get watches this way at less cost in effort and resources than if we made them ourselves, we gain by trade. Whether or not the United States is absolutely more efficient than Switzerland in making watches is beside the point.

No Free Trader doubts that in many foreign countries the levels of wages and other incomes are, as translated through the exchange rates into dollars, wretchedly low by American standards. The Free Trader merely sees through the unspoken Protectionist *theory* about what facts are relevant. Actually, wage statistics no more make a case for tariffs than would, say, statistics on egg prices in Iceland or rainfall in Patagonia. Low wages in foreign countries reflect low productivity. (Low productivity of labor in turn typically results from a great abundance of labor in relation to comparatively scarce factors of production such as land, capital, and business ability.) Low wages enable the unfortunate foreigners, despite their low productivity, to charge low enough prices so that the goods they make least inefficiently can sell in the American market. Wages reflecting their low productivity enable the foreigners to export some goods and so earn the dollars with which to buy imports. If the foreigners could not do this, their poverty would be even worse.

That cheap-labor imports undersell some American products is far from a national calamity. On the contrary, the United States gains by trade even with poor countries. Nobody who understands the Principle of Comparative Advantage, which is fundamental, could miss this point. A rich country no more loses by trading with a poor one than a rich tycoon loses by dealing with a poor newsboy.

Of course some American industries—the relatively least efficient ones—have a hard time competing with imports while paying their workers at our high American wage levels. But see what these high wage levels mean: other industries, which can use labor still more productively, are setting the pace in wages by their competition in hiring labor. The very fact that the high cost of labor burdens a particular American industry shows that its workers have good alternative job opportunities.

Cheap labor could never let foreigners undersell us on *all* goods. Allowance made for loans, gifts, and the like, a country's imports and exports of goods and services must be about equal. Except when wrecked by government interference, an "automatic" trade-balancing mechanism exists. Different wage levels among countries, as compared through the exchange rates, are an important part of this balancing mechanism. It is pleasant but unrealistic to think that foreigners would flood us with their goods and ask for little or none of ours in return.

If foreigners do sell us some things very cheap, we Americans positively gain. We can use the labor and resources that we thereby save to make other products in which we have a Comparative Advantage. Even from our own selfish viewpoint, it is fine that foreigners will work cheaply for us, trading us many of their goods for few of our own. Free Trade would raise, not lower, American standards of living.

INCOME DISTRIBUTION

To be perfectly honest, I must not overlook a theory that, while not flagrantly false, might still be considered remotely akin to the cheap-foreign-labor argument. Certain theorists have imagined a highly simplified and unreal case in which Free Trade, as compared with Protection, might, while of course increasing *total* real national income, change the shares of different groups in this total in a way that might be considered unfavorable. For example, if "labor" were "scarce" and "capital" were "abundant" in a certain country, Free Trade would promote the importation of goods with a high labor content in trade for exports with a high capital content. In comparison with the Protectionist situation, this trade would tend in effect to lessen both the scarcity of labor and the abundance of capital and so tend not only to increase total real national income but also conceivably to give labor a smaller share and capital a larger share. This recondite income-distribution theory is quite distinct from and gives no support to the usual cheap-foreign-labor argument already discussed. The reasoning and the hypothetical conditions composing this theory are so special that nobody who swallows the usual cheap-foreign-labor argument could understand this one. The very theorists who have worked out this intellectual curiosity have pointed out its irrelevance to the real world.

If anyone did try to use the income-distribution theory as an argument for Protection in the real world, the following points, among others, could be developed in reply: (1) The real world differs in countless relevant ways from the imaginary simplified conditions in which the theory works. For example, one must distinguish among a great many factors of production, not just between “labor” and “capital.” (2) It is just as possible to imagine conditions in which Free Trade increases the share of labor in a larger total real income as to imagine conditions in which labor’s share shrinks. According to a recent statistical study by Professor Leontief of Harvard, actual American conditions do more closely approach the former situation (in which Free Trade would especially benefit labor) than the latter.[19] (3) The anti-monopoly effects of Free Trade tend to change the income distribution in favor of labor. (4) If Free Trade lets a country cut its foreign-aid spending, the tax savings benefit labor as well as capital. (5) If increased income of capital feeds greater capital accumulation, the share of labor in future income grows. (6) A domestic tax program could in principle correct any unfavorable influence on income distribution so as to leave both labor and capital better off than under Protection. (7) Protectionism in accordance with the income-distribution argument and frequent adjustment of tariffs to continually-changing conditions would require the officials in charge to have an absolutely impossible amount of theoretical acumen, detailed factual knowledge, and freedom from political pressures. (8) Finally, the same income-distribution argument might be made against labor-saving inventions as against labor-saving trade; and the very reasons for not granting Protection against inventions also hold true for not granting Protection against trade.

CHEAP IMPORTS

Now let us return to the Protectionist arguments that really carry weight in practical politics. Regarding the cheap-labor argument, we may well ask: If cheap imports really do harm American labor, how does it matter *why* they are cheap—because of cheap labor, because of better natural conditions, or because of more efficient production in foreign countries? To go further, if a flood of cheap goods on the American market is harmful, what difference can it make whether foreigners or machinery provide this flood? Henry George has put the point very neatly:

We maintain a tariff for the avowed purpose of keeping out the products of cheap foreign labor; yet machines are daily invented that produce goods cheaper than the cheapest foreign labor. Clearly the only consistent protectionism . . . would not only prohibit foreign commerce, but forbid the introduction of labor-saving machinery.[20]

On the question of cheapness, some Protectionists are unexpectedly consistent: they seem to agree that low-cost foreign products hurt America, no matter why they are low in cost. The National Wool Growers Association, in a plea for greater Protection, cited a Tariff Commission finding that Australian sheep raisers have the advantage of cheap *land.* In a hearing on April 28, 1953, the Chairman of the House Ways and Means Committee sympathized with American growers of hothouse tomatoes and cucumbers because their Mexican and Cuban competitors are free from the expense of heavy investments in hothouses. A bicycle witness complained that his foreign competitors enjoy the low costs made possible by mass production to meet a large demand. The coal industry is currently agitating against imports of heavy fuel oil: since this residual oil is a by-product and so has no well-defined average unit cost of production, its competition with coal is “unfair.”

The existing United States tariff law pays homage to the theory that low foreign production costs, whatever their cause, harm us Americans. The little-used section 336 lays down procedures for changing tariff rates within certain limits so as to “equalize” (offset) differences between the production costs of American goods and competing imports. The Tariff Commission has the task of investigating production costs both at home and abroad and of recommending suitable new tariff rates to the President.

Now the very idea of cost investigations is foolish. Even aside from the many possible meanings of “cost,” the differences among costs even of producers within a single country, and the practical difficulties of such investigations, the whole business is absurd. Steady importation of some commodity itself proves that the foreign production cost is lower. Senator Malone has apparently realized how unnecessary cost investigations are. Why not set each duty at whatever level just brings the price of the imported article up to the price of the corresponding American article? The Senator has worked this idea into a pet bill of his.

Malone’s proposal certainly seems fair, doesn’t it? Don’t set tariff rates too high—just high enough to offset the foreigner’s lower costs. Put foreign and domestic producers on an even footing and, as the Protectionist O. R. Strackbein suggests, “Let the goods come in and compete on a fair competitive basis in this country. Let the best goods win.”

All such foggy notions of “fair competition” rest on a false premise. Trade is not like a horse race or a friendly golf game; “fair competition” is not an end in itself. The end of trade is to get goods on advantageous terms. To interfere with trade because of foreign cost advantages is to attack the very principle of specialization and trade. The idea that imports must not undersell domestic goods would, if consistently applied, almost wholly stop all imports and therefore all exports also. Consistently applied, the idea would enthrone national self-sufficiency and guarantee any American industry airtight Protection, no matter how badly it wasted American labor and resources.

Senator Malone, like so many other Protectionists, understands none of this. Testifying before the Senate Finance Committee on March 8, 1951, he offered this gem of absurd theorizing:

When we fix rigid tariffs, as we do under the Trade Agreements Act, or as we did in the 1930 Tariff Act except for the relatively little used flexible provision, all foreign nations have to do then, as England did, is to lower the value of their currency in relation to the dollar in order to reduce the effect of our tariff rates. This increases the cost of their imports, and keeps their standards of living down. In addition, of course, the foreign countries keep their wage rates low. Thus the rigidity of our tariffs encourages devaluation, and the maintenance of low wages.

Now, suppose you had a flexible method, as proposed in my bill, S. 981, and immediately any devaluation could be taken into consideration by the Foreign Trade Authority or the Tariff Commission in setting new tariff rates. All those factors are considered. It would be to no advantage to foreign nations to keep their costs down if they face a higher tariff in this country. The incentive to keep their standards of living down to capture the American market would be gone.

Even the representatives of these foreign countries would say after a trial "We might as well pay higher wages to our labor and pay social security and industrial insurance," as we do in this country, rather than have us pay the difference into the United States Treasury.

In effect, Senator Malone says this: Low standards of living are just a trick that foreigners use to capture the American market. If we outwit them with a flexible-tariff system, the foreigners will abandon their trickery and let their standards of living rise. The Senator's scheme will benefit not only Americans but the foreigners too!

Incidentally, whether imports have low dollar prices because of foreign currency devaluation matters no more to us Americans than low prices because of cheap labor, cheap land, efficient machinery, or any other reason. Exchange-rate adjustments are simply part of the mechanism that, when not wrecked by government interference, keeps each country's imports and exports in balance. Proper exchange rates enable even poor countries to export the products they make at least disadvantage and so to share in the benefits of international trade.

Frederic Bastiat, writing early in the nineteenth century, has keenly satirized the Protectionist horror of bargain imports in his famous "Petition from the Manufacturers of Candles, Waxlights, Lamps, Chandeliers, Reflectors, Snuffers, Extinguishers; and from the Producers of Tallow, Oil, Resin, Alcohol, and Generally of Everything Used for Lights." Here is a condensation of this imaginary petition to the French Chamber of Deputies. Note in particular how the candlemakers use the "purchasing-power" argument: the prosperity that they will get from Protection will presently radiate onto all other industries.

Gentlemen, you are right: you reject abstract theories. As practical men, you are anxious only to free the producer from foreign competition. You wish to secure the *national market* to *national labor.*

We now offer you an admirable opportunity to apply your practice. We are subjected to the intolerable competition of a foreign rival whose superior facilities for producing light enable him to flood the French market at so low a price that, the moment he appears, he takes away all our customers; and thus an important branch of French industry is suddenly reduced to stagnation. This rival is no other than the sun.

Our petition is that you pass a law to shut up all windows, dormers, skylights, openings, holes, chinks, and fissures through which sunlight penetrates. Our industry provides such valuable manufactures that our country cannot, without ingratitude, leave us now to struggle unprotected through so unequal a contest.

Do not repulse our petition as a satire without hearing our reasons in its favor. Your protection of artificial lighting will benefit every industry in France. If you give us the monopoly of furnishing light, we will buy large supplies of tallow, coal, oil, resin, wax, alcohol, silver, iron, bronze, and crystal. Greater tallow consumption will stimulate cattle and sheep raising; meat, wool, leather, and above all manure, that basis of agricultural riches, will become more abundant. Greater oil consumption will stimulate cultivation of the luxuriant olive tree. Resinous trees will cover our heaths. Swarms of bees will gather upon our mountains the perfumed treasures that are now cast useless upon the winds. In short, the granting of our petition will greatly develop every branch of agriculture. Navigation will equally profit. Thousands of vessels will soon be employed in the whale fisheries, and thence will arise a navy capable of upholding the honor of France. Paris will become magnificent with the glittering splendor of gildings, bronzes, crystal chandeliers, lamps, reflectors, and candelabras. We and our many contractors having become rich, our great consumption will contribute to the comfort and competency of the workers in every branch of national labor. No one, not even the poor resin manufacturer amidst his pine forest nor the miserable miner in his dark dwelling, will fail to enjoy an increase of salary and of comforts. There is perhaps not one Frenchman, from the rich stockholder to the poorest match-seller, who is not interested in the success of our petition.

We foresee your objections, gentlemen; but there is not one which you will not have to take from the free traders and which is not opposed to your own practice. Do you object that the consumer must pay the price of protection to us? You have yourselves already answered the objection. When told that the consumer is interested in free importation of iron, coal, corn, wheat, cloth, etc., you have answered that the producer is interested in their exclusion. You have always acted to *encourage labor,* to *increase the demand for labor.*

Will you say that sunlight is a free gift, and that to repulse free gifts is to repulse riches under pretense of encouraging the means of obtaining them? Take care—you deal a death-blow to your own policy. Remember: hitherto you have always repulsed foreign produce because it was an approach to a free gift, and the closer this approach, the more you have repulsed the goods. You have, in obeying the wishes of other monopolists, acted only from a *half-motive;* to grant our petition there is a much *fuller inducement.* To turn us down just because our case is much stronger than any previous one would be to accumulate absurdity upon absurdity.

When we buy a Portuguese orange at half the price of a French orange, we in effect get it half as a gift. If you protect national labor against the competition of a *half-gift,* what principle justifies allowing the importation of something just because it is *entirely a gift?* You are no logicians if, refusing the half-gift as hurtful to human labor, you do not with double zeal reject the full gift.

The difference in price between an imported article and the corresponding French article is a *free gift* to us; and the bigger the difference, the bigger the gift. It is as complete as possible when the producer gives us, as the sun does with light, the whole in free gift. The question is whether you wish for France the benefit of free consumption or the supposed advantages of laborious production. Choose, but be consistent. And is it not the height of inconsistency to check as you do the importation of foreign goods merely because and even in proportion as their price approaches *zero,* while at the same time you freely admit the light of the sun, whose price is during the whole day at *zero?*

DUMPING

Protectionists want tariffs to combat "dumping." Dumping means that foreigners are selling their goods on the American market, perhaps with the aid of subsidies from their government, at less than the price they charge at home. Even if dumping does occur often enough to be important, however, it is not clear how it harms us Americans. If the dumping is steady, we should rejoice in a steady flow of bargains. As we have already seen, *why* the foreign goods are cheap makes no difference.

Intermittent dumping is conceivably a different story. If the foreigners sometimes offer bargains and sometimes charge high prices, the uncertainty might disorganize American markets and American industry. However, plenty of American commodities—wheat, for instance—rise and fall unpredictably in price without alarming our Protectionists. In particular, if the intermittently-dumped imports were storable, like wheat, then speculators could make a profit by buying up the goods when they were dumped and reselling them when the dumping stopped. So doing, the speculators would even out conditions in the American market and still save for us the advantage of the bargains sometimes obtainable. If conditions were not clear enough for speculators to see profit opportunities, then it is hard to understand how conditions could still be clear enough for the government to take proper action. Intermittent dumping of non-storable goods is probably of little or no importance.

Ordinary fixed-rate tariffs are no guarantee against future intermittent dumping. Whatever little might be said in favor of special "emergency" antidumping duties, the administrative difficulties and the danger of Protectionist misuse inherent in them make them unwise. For one thing, "emergency" tariffs breed vested interests and have a political tendency to become permanent.

In ordinary talk, the word "dumping" has no clear meaning except as a kind of swear word suggesting that some businessman finds some import price too low to suit him. Pleas for antidumping duties are typically just the standard Protectionist fallacies in disguise.

INFANT INDUSTRIES AND ECONOMIC DEVELOPMENT

The infant-industry argument supposes that while a country might have a prospective Comparative Advantage in a certain industry, that industry might never get the necessary good start in life merely because of the head start enjoyed by foreign competitors. A temporary Protective tariff would let the infant industry find a wide enough market to support economical production methods. The industry could stand on its own feet in a few years, and then the tariff would be removed.

The infant-industry argument has such admittedly slight relevance to present-day American conditions that we may properly pass over it more quickly than if we were considering how it applies to other countries. (1) The prospect that an infant industry could in time survive without Protection is not conclusive grounds for a temporary tariff. The loss in total real national income through curbs on international specialization and trade in the meanwhile might well burden other industries for which the country would have been even more highly suited. If prospective long-run profits from an infant industry do not impress private investors as likely more than to pay for losses during the industry's first few years, then why should the government presume to know better and force consumers to pay for the gamble through tariff-raised prices? (2) History casts some doubt on the theory of infant-industry protection. Manufacture of iron, hats, and other goods got a foothold in Colonial America even despite British attempts at suppression. Manufacture of textiles, shoes, iron and steel, machine tools, and countless other goods has flourished in the American South and West despite competition under internal Free Trade with the well-established industries of the Northeast. (3) A legislature, whose members' chief interest may be in the next election, is hardly a fit body to make and apply an impartial analysis of economic conditions and technological prospects. Political pressures also explain why infant industries practically never get weaned from Protection. Some Protected American industries are big babies with long beards. Once the principle of infant-industry Protection is accepted, the door is open to promiscuous Protection on all sorts of pretexts. (4) As popularly used, the infant-industry argument is akin to the save-an-industry fallacy, which we have already discussed. Not industries, but the products of industries, are what people really want. If certain products can be got more cheaply from abroad than at home, that is fine. (5) Even if, despite all the good reasons to the contrary, a government should want to encourage some infant industry specially for a while, then a subsidy is a better method than a tariff. The relative superiority of the subsidy approach has already been explained in connection with the defense argument.

The infant-industry argument is nowadays extended into an argument for Protection to foster a country's general economic development. Since this argument is quite irrelevant for the United States, we may hasten over it. (1) Some users of the economic-development argument apparently have jumped to the unwarranted conclusion that since industrial countries are wealthier than agricultural countries, a tariff to encourage manufacturing will promote wealth. Actually, one might just as well encourage theaters and beauty shops on the grounds that wealthy countries have many of them. (2) Shelter from the competition of foreign manufactures ranks very low if at all on the list of things that a "backward" country needs to promote economic development. More necessary are venturesome business enterprisers, a social and ideological climate not hostile to business enterprise, capital for productive investment, a tax system that encourages enterprise and productive use of resources, and—perhaps—governmental development of education and health programs and certain public utilities. Home-produced manufactures sell poorly not so much because of import competition as because the country's poverty-stricken people cannot afford much manufactures, foreign or domestic. So far as curbs on international specialization and trade hold down real income, Protectionism not only impedes essential saving and investment but also holds down the people's power to buy industrial goods. (3) When conditions are ripe, a country's industrial structure tends to develop "naturally" in a balanced way that need not be described here. Hothouse forcing of merely spectacular industries does not make for balanced economic development. (4) In short, the notion that Protection against international trade promotes economic development seems to be a *non sequitur,* probably based on the idea so common nowadays that governments possess superhuman benevolence and wisdom.

As Lord Beveridge truly wrote, the industrial development of a Free Trade country is guided by businessmen sticking to their business and always seeking to wrest the maximum useful result from available resources. Industries compete in economic efficiency alone. In a Protectionist country, industrial development is guided by politicians, by businessmen become politicians, by legislators with business allegiances, and by lobbyists. Industries compete less in productive efficiency and more in political influence and wire-pulling. Tariff-making brings businessmen out of their factories and offices into politics, which is a misuse of both business ability and political machinery.21

TARIFFS FOR REVENUE

What shall we say to the argument that tariffs are desirable as a source of government revenue? Well, the higher an import duty gets beyond a certain point and the more goods it keeps out, the less revenue it brings in. If a duty provides both Protection and revenue, it necessarily performs each function imperfectly.

More fundamentally, though, tariffs are a poor type of tax. The middlemen between the foreign producer and the home consumer must pay the government the duty on an imported product before they pass the duty along to the consumer; and in order to pay themselves for this tying-up of their capital, they must figure their markups not on the price of the article alone but on the price plus the duty. As a result the duty raises the price to the final consumer by more than its own amount. Also, tariffs on mass-consumed articles are, like sales taxes, more of a burden on poor than on rich people.

Customs duties provided the bulk of United States government revenue before World War I, but nowadays they are relatively quite unimportant. Currently the tariff brings in a *little under one per cent* of total Federal government revenue, so it is hardly indispensable. Furthermore, even that miserable fraction of one per cent is at least partly offset by the burden that the tariff system puts on the government and public: the costs of running the customs "service," the extra paper work and legal expenses imposed on private business, the expenses to business of keeping informed on tariff issues and of lobbying, the costs of Congressional and Tariff Commission debates, hearings, and investigations, the costs of the Customs Courts, the costs of international trade negotiations, the losses caused by delays in the availability of imported goods, the value of the time lost by travelers waiting to be searched, and so on, not to mention the lost benefits of the trade that is stopped. Even Malone of Nevada, the most vocal Protectionist in the United States Senate, agrees that "The actual revenue that we collect on imports is not particularly important."

It is quite possible that abandonment of import duties would actually increase rather than reduce total government revenue. By permitting the advantages of greater international specialization, Free Trade might so increase national income that greater yields of already-existing income-tax rates would more than make up for any loss in tariff revenue.

There are still other advantages of clear-cut Free Trade unmarred even by a revenue tariff. A revenue tariff on an article also produced at home gives at least incidental Protection. It leaves a foot in the door for real Protectionism. Also, as a goodwill gesture and as an example to foreign countries, complete Free Trade is far better than even a moderate revenue tariff. People would be justly skeptical about Free Trade "with minor exceptions." How much more convincing and dramatic it would be to tell the world that the United States of America has adopted Free Trade—complete Free Trade with no exceptions and no strings!

THE TERMS OF TRADE

The idea that a tariff is a way of collecting taxes from foreigners *instead of* from a country's own citizens is naïve. The home consumer pays, of course, in the form of prices boosted by the tariff. Any chance of shifting part of the burden on to foreigners leads us into the highly academic argument that a tariff can improve a country's terms of trade.

An improvement in the terms of trade means that the prices at which the country buys its imports go down relative to the prices at which it sells its exports. In other words, it means that the country gets a greater quantity of imports relative to the quantity of exports that it must send out in payment.

How does this work? The idea is that tariffs enable our country to act as a unit on the world market: tariffs in effect control buying competition among our private importers and let our country instead act as a monopoly buyer. If the foreigner suppliers are not very sensitive to the prices we pay—if they depend on our market and would keep selling us nearly the same old quantities of goods even at lower prices—and if we are sensitive to the price of imports—if we are not very dependent on foreign supplies—then we have a chance to make the foreigners pay some of our import duty. Rather than let our import duty much increase the retail price and so lose them many customers, the foreigners, being dependent on our purchases, will themselves absorb part of the duty. The foreigners net themselves lower prices than before, which means that our country has succeeded in beating down import prices with its tariff.

Before getting enthusiastic about this possibility, we should ask just what people benefit from the improved terms of trade. Certainly not the consumers as such: the tariff doesn't lower retail prices of imports but rather tends to raise them a bit. No, it is the government that benefits: it collects import taxes that have in effect been partly shifted onto the foreign suppliers. Presumably this revenue lets the government either spend more money in the public interest than otherwise or else set home taxes lower than otherwise. Thus, the way that our people benefit is rather indirect and uncertain.

Furthermore, while foreign suppliers may depend on our purchases and have to absorb some of our import duty in the short run, that is much less true in the long run. The more time allowed for adjustment, the more price-sensitive does the supply of something, especially to one particular market, become. Professor Frank Graham has fully developed the point that because of long-run supply conditions in world trade, tariffs can much improve a country's terms of trade only for a while.

Even this temporary improvement applies only to a volume of trade that the tariff itself has shrunk. Our country gets better terms per unit of trade but on less trade. Our consumers also pay higher prices than otherwise on the home-produced goods that replace some imports.

Since tariffs increase the gain per unit of trade but shrink the volume of trade, there is in principle some ideal tariff that would give our country the greatest possible *total* gain (temporarily). To set this ideal tariff is impossible in practice. Considering many sorts of impossibly detailed information about everchanging supply and demand schedules, the government would have to set a separate ideal duty on each of the thousands of different items. The tariff experts would need inhuman brilliance and impossible freedom from political influence. In practice, politicians set tariffs far above any theoretically-ideal level.

The academic terms-of-trade argument clashes with some of the more popular Protectionist arguments. At least it is right in seeing that cheap imports are beneficial and not harmful. Second, it clashes with the idea of Protecting home producers: full Protection would wipe out trade rather than increase the gain from it. Third, the terms-of-trade argument justifies export as well as import duties. (You yourself may work out the argument and find the flaws in it as a practical idea.) Yet Protectionists typically approve of exports.

The terms-of-trade argument is a strictly nationalistic one. It tells how one country can reap a temporary gain at the expense of foreigners. Now, if we make the absurd assumption that our country has the detailed facts and the nonpolitical tariff system needed to apply the theory to its own advantage, we should suppose that foreigners also know how to play the game. The outcome of retaliation and counter-retaliation would be an all-around shrinkage in trade and loss to all countries. Everybody can't exploit everybody else. Incidentally, it would be inconsistent for the United States even to try on the one hand to exploit foreigners through the terms of trade while on the other hand spending billions of dollars a year to help them.

The space spent here on the terms-of-trade argument is all out of proportion to its practical importance. It does have some theoretical importance because academic economists are delighted and intrigued with such a curiosity as a tariff argument that is not quite false.

RETALIATION AND TARIFF BARGAINING

If foreign countries have tariffs and other import barriers, shouldn't we retaliate in kind? It is true that foreigners hurt us as well as themselves with their trade barriers, but we can't remedy some obstacles to trade by setting up others. As Lord Beveridge has said, that other countries have bad harbors is no reason for a country to sink rocks around its own coasts.

Akin to the retaliation argument is the argument that tariffs are useful for bargaining power. High American tariffs punish foreigners for their tariffs and let us offer cuts in ours in return for cuts in theirs. Anyone who sincerely uses this argument is tacitly admitting that general Free Trade is desirable. He is arguing that tariffs may be a tactical weapon to cut down tariffs. However, if one country uses its own high tariffs to make other countries lower theirs, the other countries can do the same. With many countries maintaining or raising tariffs to get other countries' tariffs down, the end result is likely to be an over-all rise in trade barriers. This is especially true because tariffs once erected, no matter why, cannot fail to give at least incidental Protection to home producers and so to breed vested interests which demand their continuance. Furthermore, to experiment with tariffs for bargaining power suggests to the man in the street, who doesn't understand such matters very well, that tariffs really must benefit his country. If we want foreigners to believe that tariffs are harmful, we ought to set an example by getting rid of our own. Tariffs for bargaining power boomerang.

Discussion of a final argument for tariffs—that adjustment to their removal involves painful difficulties—is left until the chapter on "Progress toward Free Trade."

MONEY AND EXCHANGE RATES

While not now besetting the United States, balance-of-payments troubles, otherwise known as the famous "dollar shortage," account in large part for the strict import barriers maintained by many other countries ever since World War II. The foreign countries with these troubles have a seemingly intractable tendency to import goods and services worth more than what they export. These countries would always be in danger of using up their reserves of gold and foreign exchange (especially American dollars) unless high tariffs, strict import quotas, and comprehensive exchange controls squelched their tendency to overimport. What causes this tendency to overimport and the resulting need for controls? It is hardly an oversimplification to blame wrong currency exchange rates. Many a government has been fixing the price of its own currency against the American dollar at a higher level than would prevail in a free market. As a result, people of the exchange-control country find goods imported from the United States and other "hard-currency" countries a great bargain in their own local currency, while their exports are too expensive for people in hard-currency markets. Hence the tendency for such a country to import more than it exports, and hence the apparent need for trade and exchange controls to curtail spending of scarce gold and foreign-exchange reserves.

You may object to this interpretation of postwar trade and exchange controls by pointing out that before 1914, the chief countries in world trade kept their exchange rates fixed under an international gold standard and yet did not need special controls against overimporting. Well, many people who yearn for the days before World War I have an exaggerated idea of how long the international gold standard was in effect, of how smoothly it worked, and of how free from interference trade under it was. Furthermore, before World War I, the governments of gold-standard countries were generally content to let inflation and deflation at home keep in step with world-wide monetary conditions. Nowadays most governments pursue so-called "full-employment" policies and would resist any deflation of the home money supply, prices, production, and employment transmitted through foreign trade.

Theory and experience have shown again and again that three things are not permanently compatible: (1) fixed exchange rates among the currencies of various countries, (2) independent national monetary policies (that is, monetary management affecting domestic levels of prices, production, income, and employment), and (3) international trade free from special controls to force a balance between imports and exports. Before World War I the leading countries, by and large, sacrificed independent monetary policies in order both to have stable exchange rates and to do without special controls to balance imports and exports. Nowadays, by contrast, most countries will not give up their monetary independence.

While a full discussion of the matter lies outside the scope of this pamphlet, many economists do judge that the so-called business cycle of boom and depression is mainly a matter of monetary inflation and deflation, and that the key to stable prosperity lies in managing the country's money supply so as to stabilize the general price level. Proposals for deliberate money management are hardly radical or socialistic: establishment and control of a money system is inevitably a function of government, anyway; and government taxing, spending, and debt management cannot help but profoundly influence a country's money supply, total spending flow, price level, and business conditions. The proposal for monetary stabilization is not that governments should have more power to influence spending, prices, and business conditions than they have already, but that this power should be subjected to a definite well-chosen rule rather than be used in a haphazard and sometimes disastrous manner.

A stable-money policy would be important not only as a way to avoid the well-known wastes and frustrations of inflation and depression but also as a safeguard against Protectionist sentiment. When labor, factories, and machinery are going to waste through idleness in a depression, people are not likely to understand or care about the lesser wastes caused by trade barriers. In a depression, people are likely to swallow arguments that tariff Protection safeguards home industry against foreign competition, saves jobs, and so on. The world-wide plague of trade barriers during the Great

Depression of the 1930's illustrates how depression breeds Protectionism. Free Traders dare not ignore the need for monetary stabilization in order to maintain prosperity and full employment.

Rather than give up either independent money-stabilization policies or freedom of trade, why shouldn't countries give up rigid exchange rates? Price fluctuations in free markets play a vital role in guiding economic activity in a free-enterprise system; it seems strange to clamp government controls on such vital prices as the rates of exchange between currencies. Under a system of freely-fluctuating exchange rates, a government would not have to maintain or worry about reserves of gold and foreign money. It would not have to worry about a balance between imports and exports. The free market would assure such a balance "automatically": any tendency toward overimporting, for example, would make the home currency depreciate in terms of foreign currencies, thereby checking imports and stimulating exports. The familiar objections to free exchange rates—the alleged insensitivity of trade to prices, the alleged dangers of speculation, and the alleged risks imposed on international trade and investment—do not, in my considered judgment, survive careful inspection. Free exchange rates would make independent policies to stabilize the purchasing-powers of national currencies and so to stabilize prosperity logically compatible with complete Free Trade.

Aside from these economic considerations, considerations of political tactics from the Free-Trade viewpoint make free exchanges preferable to fixed exchanges. Fixed exchanges promote Protectionist sentiment by hiding the damage done by import barriers to industries other than those directly favored. The mechanisms that tend to balance imports and exports under a system of fixed exchange rates are complicated and are understandable only to special students. Fixed exchange rates lend superficial plausibility to Protectionist arguments about "preserving home markets" and so forth. Under free exchange rates, by contrast, it is easy to understand how a tightening of import duties or quotas would tend to make the home currency appreciate in terms of foreign currencies. It is clear that while a higher tariff on one import would benefit the competing home industry, the effect of the tariff on the exchange rate would stimulate *other* imports and would discourage exports. Under free exchanges, businessmen could see clearly how tariff privileges given to some inflict damage on others. Thus free exchanges would enable businesses damaged by Protectionism to make definite, understandable, timely complaints.

While a system of freely-fluctuating exchange rates is not the only workable international monetary arrangement conceivable, it is hardly strange that freedom of trade from controls and freedom of foreign-exchange markets from controls make a logical pair of policies.

POLITICAL REASONS FOR PROTECTIONISM

American political history helps explain why Protectionism has lasted so long despite the overwhelming case against it. Congressmen seeking reelection are not likely to ignore the pressures of special economic interests among their constituents. A Congressman from a shoe-producing district can no more win votes by favoring duty-free shoe imports than a senator from a sheep-raising state can win votes by favoring duty-free wool imports. Even if—contrary to fact—every single senator and representative favored Free Trade "as a general principle," he would find it politically expedient to make an exception for the "special circumstances" of the industries in his state or district. Here "logrolling" comes into the picture. A Massachusetts senator might say to a Louisiana senator, for instance, "You vote for my shoe tariff, and I'll vote for your sugar tariff." And so it goes, some vote-trades conceivably bringing in other matters than the tariff: "You vote for my pottery tariff, and I'll vote for your wool tariff." "You vote to dredge my creek, and I'll vote for your glove tariff." "You vote for my watch duty, and I'll support your appropriation for a new post office." "You go along with me on a motorcycle duty and I'll go along with you on silver subsidies." Such logrolling must play a big part in any explanation of the high Smoot-Hawley Tariff of 1930, which, while since then greatly modified by trade agreements, is still the basic tariff law of the United States.

The general interest gets lost amid the special-interest pressures and the logrolling. Each special producer interest knows what it wants and how to get it through political pressure. The consumer interest is unorganized and without effective lobbies. The old principle holds true that "Everybody's concern is nobody's concern."

The general ignorance of tariff issues except by the Protection-seeking special interests provides an opportunity to wrap up Protectionism in the American flag. To the uninitiated, slogans about "saving the home market" and "protecting American industry" have an undoubted appeal. Phony patriotism is an effective trick of Protectionist sloganeering.

Political parties in a democracy tend not to draw up election issues in a clear-cut way. An anti-Protectionist party would hesitate to demand complete Free Trade for fear of losing some Protectionist voters who would support it on other issues. The anti-Protectionists would expect to get the votes even of complete Free Traders merely by being somewhat less Protectionist than the avowed Protectionist party. Thus political compromise, plus the unavoidable intermingling of unrelated issues in every election, means that the issue of Protection versus Free Trade always gets watered down into an uninspiring issue of a little more versus a little less Protection. If the tariff could somehow be got rid of as a political issue, the disentanglement of issues would improve the wisdom of political decision making on other matters.

Underlying people's willingness to compromise on the tariff and other issues seems to be the very widespread fallacy, rarely spoken in so many words, that positive virtue lies in a "middle-of-the-road" position between two "extremes." Nobody wants to be an "extremist." We might name this attitude the "golden-mean fallacy." Actually, either so-called "extreme" policy, especially in economic matters, may have a logical coherence and self-consistency completely lacking in a "compromise." A further defect in "golden-mean" thinking is that almost any position can be described as a compromise between two extremes. Protectionism could be described as a happy medium between complete national self-sufficiency on the one hand and Free Trade on the other; Free Trade, as a happy medium between Protectionism on the one hand and a policy of export duties plus import subsidies on the other. People who habitually pride themselves on their "middle-of-the-road" positions are just showing their own intellectual bankruptcy. The illogic of compromisers is something that Free Traders always have to combat.

The conclusion to be drawn from this chapter is not that Free Trade is a hopeless cause, but that the popularity and persistence of Protectionism are no evidence whatsoever in its favor. Faulty theories and the realities of practical politics combine to fasten Protectionism upon us. But if a sizable number of influential people can be made to see the fallacies in Protectionist theorizing, Free Trade will become an issue that even practical politicians can no longer afford to ignore.

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Progress Toward Free Trade

ECONOMIC EDUCATION

This final chapter will consider some possible strategies for achieving Free Trade. The greatest need is for economic education. It is not beyond hope that several hundred thousand or even several million people can be made to understand the Principle of Comparative Advantage. The case for Free Trade and the exposure of Protectionist fallacies must be repeated again and again in such simple words that understanding gains a foothold outside academic circles. Such an understanding will drive home the all-important point that the clash of interests in tariff matters is not between Americans and foreigners but between each of various special producer groups on the one hand and the American people as a whole, whose losses from Protectionism far outweigh the gains to special groups, on the other hand. It is probably not necessary that a great majority of voters really come to understand the tariff issue in all its detail. If understanding becomes general among newspapermen, prominent businessmen and labor leaders, politicians, and others whose opinions have special weight, such men will carry many voters along with them.

RECIPROCAL TRADE AGREEMENTS

One conceivable approach to Free Trade warranting attention is tariff reduction through trade agreements. The Reciprocal Trade Agreements Act, which Congress first passed in 1934 and has extended with changes ever since, gives the President power to make trade agreements with foreign countries and to lower American tariff rates within set limits in exchange for foreign tariff concessions.

Trade agreements made under the Act have significantly lowered American tariffs. The United States has cut or promised not to raise about 2,590 rates out of a total of 3,552; on the basis of import value figures for 1949, the agreements have affected about 95 per cent of our dutiable imports and about 90 per cent of our total imports (duty-free as well as dutiable). Protectionists often complain about these duty cuts by citing statistics such as follow: Over the period 1931-1935, customs receipts amounted to 50.0 per cent of the value of dutiable imports and to 18.5 per cent of the value of duty-free and dutiable imports together. In 1952, however, customs receipts amounted to only 12.8 per cent of the value of dutiable imports and to only 5.4 per cent of the value of all imports.

If we really are already so very close to Free Trade as some Protectionists complain and we have got along all right anyway, why not take one little step further and reap all the world-wide prestige that adoption of complete Free Trade would earn us? In fact, the statistics just cited exaggerate our tariff cuts. (The percentage reductions are partly unintentional, anyway: duties set as so many dollars or cents per unit have become lower percentages of inflation-raised product prices.) The ratio of customs collections to import values is a poor indicator of our remaining degree of Protectionism. Suppose, as an extreme case, that all goods except duty-free raw materials were under a prohibitive tariff of 2,000 per cent. Then, since no dutiable imports at all could sell in the American market, customs collections would be zero per cent of import values. This zero would show quite the opposite of Free Trade.

A better way to judge the degree of Protectionism is to look at the rates on particular products. Our trade agreements still leave high rates on such important classes of goods as woolens, some non-ferrous metals, rayon, many cotton specialties, glass, many finished steel products, most kinds of machinery, and miscellaneous precision specialties like optical goods and cameras. Duties on coal tar dyes run as high as 200 or 300 per cent of the foreign price. Champagne and all other sparkling wines still pay $1.50 per gallon, laces pay as high as 90 per cent of value, inexpensive clockwork mechanisms pay the equivalent of nearly 180 per cent, some watch parts pay the equivalent of about 86 per cent, embroidered wool gloves pay 90 per cent, glass surgical instruments pay 70 per cent and glass dental instruments 60 per cent, and many other high rates still in effect could readily be listed. Furthermore, even the reduced rates can be raised again under the “escape clauses” in our trade agreements whenever a domestic industry convinces the Tariff Commission and the President that it is suffering from foreign competition. This very uncertainty in our tariff rates deters trade. As evidence of how restrictive our trade barriers still are, consider this: from 1909 to 1929, mechandise imports seldom amounted to less than 5 per cent and sometimes exceeded 6 or 7 per cent of the national income of the United States; but in 1952, imports amounted to only about 3.7 per cent of national income.

The reciprocal trade agreements program has all along been a very timid approach to lower tariffs. Its avowed aim has been, not to permit a repatterning of production for the sake of greater efficiency in the use of America’s labor and resources, but to get foreign concessions on American exports by offering duty concessions so carefully chosen by ourselves as not to hurt Protected special interests in the United States. Even in his original message to Congress proposing the reciprocal trade legislation, President Roosevelt promised that “no sound and important American interest will be injuriously disturbed.” President Truman did not even confine his assurances to “sound and important” interests: he promised that “domestic producers would be safeguarded in the process of expanding trade” and that the program would not be used “in such a way as to endanger or trade out segments of the American industry, American agriculture, or American labor.” Secretary of State Acheson conceded that duty reductions could properly be revoked in cases of “genuinely serious injury to domestic industry.” Apparently these gentlemen were unfamiliar with the flaws in the Protectionist save-an-industry argument. Their “no-injury” rule, if applied literally, would rule out most meaningful tariff cuts.

The “escape-clause” provision of the Trade Agreements Extension Act of 1951 (which is kept in the 1953 extension of the Act) shows the timid spirit of the whole program:

No reduction in any rate of duty, or binding of any existing customs or excise treatment, or other concession hereafter proclaimed under section 350 of the Tariff Act of 1930, as amended, shall be permitted to continue in effect when the product on which the concession has been granted is, as a result, in whole or in part, of the duty or other customs treatment reflecting such concession, being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products.

Besides that, the so-called "peril-point" provision of the Trade Agreements Act requires the Tariff Commission to make studies and warn the President of what degree of duty cuts on particular products could not be exceeded without damage to domestic industries. The President must heed the Commission's warnings in making trade agreements unless he explains to Congress why he has not done so.

My criticisms of the trade agreements program do not mean that Free Traders should oppose it: they would then be in alliance with the arch-Protectionists. They should support it as better than nothing while working for a direct approach to Free Trade. If we Americans really want Free Trade, we can do better than just nibble here and there at tariff barriers by agreement with foreign countries. By adopting Free Trade independently, we can show the whole world that we consider tariff removal not as a kind of self-injury that must be carefully measured and paid for but as a benefit even to ourselves alone. Such a dramatic example would probably do more for the cause of world-wide Free Trade than thousands of reciprocal trade agreements.

ADJUSTMENT TO FREE TRADE

Adoption of Free Trade would change the pattern of production in the United States—no Free Trader thinks otherwise. Labor and resources would shift out of some industries into other industries where they would be relatively more productive. Such shifts, far from being regrettable, are a vital part of the process whereby a country gains from trade. (Remember our illustration of the Principle of Comparative Advantage.)

Adjustment to Free Trade, as to any other kind of progress, would of course inconvenience some producers. The problem is undoubtedly not as hard as Protectionists say. Mr. Louis Doumeratzky, retired tariff expert of the Commerce Department, estimated that if all duties and other curbs on imports into the United States from Western Europe had suddenly been removed in 1948, only about 7 per cent of American industry (in terms of value-added) would have suffered (and the American industries with a Comparative Advantage would, of course, have benefited). Even on the extreme and untrue assumption that all adversely-affected industries would have had to close, it would have cost less than the 1948 slice of the Marshall Plan to give all employees their full pay while they looked for new jobs, even if each employee looked for a year.[22] After a detailed commodity-by-commodity survey, Mr. Howard S. Piquet, economist for the Library of Congress, has concluded that the problems of adjustment to suspension of American tariffs on all imports from everywhere would probably be no greater than the problems of normal adjustment to technological change. (Whether or not necessary adjustments would be slight, however, does not really affect the Free Trade case. Great adjustments would only show how much tariffs had previously been obstructing the most efficient and productive use of labor and resources.)

Mr. Piquet's comparison reminds us again of the similarities between trade and technological progress: adjustment to the one and to the other are very much alike. If it is desirable, even at the sacrifice of efficiency, to shelter parts of an economic system from foreign competition, why shouldn't they also enjoy shelter from internal change such as technological developments and shifts in consumer preferences? Why shouldn't the buggy-makers have been protected against the automobile? Why shouldn't hot-dog sellers along Route 1 have been protected against construction of the New Jersey Turnpike? Protectionists who advocate shelter against changing conditions typically have only one small part of the economic system in mind—their own. A comprehensive program of Protection against the need for adjustments would simply be a program for stagnation. The United States would never have grown great without a free economic system that permitted and required industrial deaths as well as industrial births by way of adjustment to continual change.

Any adjustment of American industry and agriculture to Free Trade would be small compared to the reconversion program after World War II. A Protectionist who dreads adjustments would, if consistent, presumably deplore final settlement of the Korean and "cold" wars and the achievement of real peace in the world. Senator Malone has, in fact, come close to such a strange consistency:

There is no question but that we cannot live right now in any other than a wartime economy, in my opinion. If we had had another year of peace, the economic system of this country would have been wrecked almost beyond redemption. We would have had to rush to Congress for some kind of special relief.

That is what the Senator told the House Ways and Means Committee on January 26, 1951 during his tirade against tariff cuts. His words are a good example of Protectionist misunderstanding.

One very important answer to Protectionists who worry about adjustments to Free Trade is this: if the United States ever expects to taper off its burdensome foreign-aid spending, American industry and agriculture will unavoidably have to adjust to changes in foreign trade. The question is not whether or not we shall make adjustments, but what kind of adjustments we shall make. Since World War II American exports of goods and services have exceeded imports by 4 or 5 billion dollars a year; and our aid to foreigners has paid for this gap. If foreigners stop getting our aid dollars, they will no longer be able to pay for all our goods they now buy. Our exports will drop unless foreigners can somehow get the dollars to keep on paying for them—unless, for instance, they can earn dollars by selling more of their own goods to the United States. Free Trade on the part of the United States will let foreigners earn more dollars and so will soften the impact on our export industries when our foreign-aid programs taper off. (Adoption of Free Trade by the United States would probably not in itself let foreigners earn fully enough extra dollars to replace our aid;

other things, such as correct foreign-exchange rates, would also be necessary to balance trade without special controls.)

If American imports fail to rise when foreign aid drops off, important segments of American industry and agriculture will have to make real adjustments. In a speech on April 17, 1953, Mr. Samuel W. Anderson, Assistant Secretary of Commerce for International Affairs, stressed "the necessity of giving our friends abroad the opportunity to earn their way by selling more to us." Otherwise, Mr. Anderson estimated, our exports would fall by 25 to 30 per cent, displacing 300,000 workers. In 1950 or other recent years, we Americans exported 38 per cent of our cotton, 37 per cent of our wheat and flour, 26 per cent of our tobacco, 39 per cent of our rice, 31 per cent of our grain sorghums, 20 per cent of our soybeans and soybean products, 24 per cent of our lard, 21 per cent of our dried and evaporated fruit, 13 per cent of our textile machinery, 22 per cent of our machine tools, 21 per cent of our tractors, 19 per cent of our printing machinery, 16 per cent of our oil-field machinery, 13 per cent of our diesel engines, 11 per cent of our motor trucks, and 11 per cent of our farm machinery. Forty per cent of our film-rental receipts came from abroad.[23] Government officials have estimated on the basis of 1949 export figures that in addition to many farm workers, about 1,695,000 Americans owe their jobs directly or indirectly to exports. These include about 305,000 workers in trade and services, 290,000 in machinery, 225,000 in transportation, 155,000 in primary metal industries, 135,000 in textiles, apparel, and leather, and 125,000 in fuel and power.[24]

On May 24, 1953 the *Washington Post* published a case study of how one Congressional district depends on export trade. The Eighteenth District of Pennsylvania was chosen for study because, ironically, its Congressman, Richard M. Simpson, is a leading sponsor of Protectionist bills in the House Ways and Means Committee. Just as the whole American economy has been changing, so have Representative Simpson's eight counties been gradually shifting over from a declining coal industry and farming to small and medium-sized manufacturing. Significantly, none of the new and growing industries in Mr. Simpson's district has called for tariff Protection. Right in the Congressman's home town, the head of a firm making reflective paint and marking-machines for highway safety lines says that he would sell more of his products abroad if only the would-be foreign buyers could themselves earn more dollars in the United States. Mr. H. J. Heinz, whose company is trying to find foreign markets for the baby foods and ketchup made in Simpson's district, advocates a more-trade policy. The Standard Steel plant in the district makes export goods. So do two machine-tool companies and the Chambersburg Engineering Company, which makes drop forges, hydraulic presses, power machinery, and machine tools. Some 200 of Mr. Simpson's constituents commute daily to Hagerstown, Maryland, where they help make airplanes for export. Others besides such industries would suffer from the tighter import curbs proposed by Representative Simpson. A dealer in petroleum products points out that the proposed quotas against imported residual oil would raise the costs of industrial and, indirectly, home fuel. The proposed higher tariffs on lead and zinc would raise costs for shops making tools and plumber's pipe. All in all, the *Post* article concludes, Simpson's tariff-hiking bill would hurt, not help, even his own district.

Even some of the leading Protectionists finally admit the close tie between exports and imports. They show this by the way they disparage American exports. Writing to the *Washington Post* for June 9, 1953, Mr. O. R. Strackbein takes note of

the admittedly difficult question of what to do about shrinking foreign markets such as must be expected once the need for our foreign military and economic aid abates.

Referring to the "needed readjustment of our economy," Mr. Strackbein scorns "the wishful thinking that would have us hold to our artificial export market. . . ." According to him, "Our exports and not our imports are out of line."

In a speech on February 22, 1950, Mr. Richard H. Anthony, Secretary of the American Tariff League, said:

When the exporter is thwarted from selling abroad all he thinks he should, he may become aggrieved and in his grief he is likely to forget that he has no inherent right to demand free access to any but the domestic market. Foreign sales are frosting on the cake. It's nice to have the frosting, but it is more important to have the cake.

The foregoing discussion of exports is certainly not meant to imply that exports are better for a country than imports. Exports are useful goods traded for imported goods that consumers consider still more useful. The fundamental aim of economic activity is to acquire, not dispose of, useful goods and services. Neither does the discussion imply that readjustments to declining exports would be very painful and inherently undesirable; to suppose so would be to fall into the Protectionist save-an-industry fallacy. This is my only point: since readjustments are always necessary in a progressive economy and will be especially necessary when the United States tapers off its foreign-aid programs, it is far better to have readjustments that expand rather than shrink the industries in which the United States has a Comparative Advantage. This sort of readjustment is especially preferable when we recall the non-economic as well as economic advantages of Free Trade: a lessening of pressure-groupism in American politics, a great contribution to solidarity among all free peoples, a step toward peace.

A growing number of American industrialists now take a healthy attitude toward import competition. Among the 825 leading citizens canvassed early in 1953 by the Council on Foreign Relations, 61 per cent even of the businessmen alone rejected the idea of limiting tariff cuts only to those that would not damage domestic producers; another 4 per cent of the businessmen thought themselves probably in agreement. *Business Week* for December 13, 1952 quotes a machinery manufacturer in Columbus, Ohio as follows:

They can cut tariffs all they want to and if I can't make a living I'll give up. If the world centers around my own little plant, let's be absolute. Let's have some protection from my competitors here at home.

One reason why adjustments in production need not be too painful is that many would consist in the main only of adaptation of existing lines of production rather than of a switch to wholly new lines. Tariff reduction has already stimulated the motorcycle industry to shift from heavy to lighter models. The trend in demand toward lighter models was in itself largely due to the fact that motorcycle imports had previously popularized motorcycling as a sport. Since garlic is grown for the most part along with much larger vegetable and sugar-beet crops, garlic imports probably only encourage a painless shift to these other crops. A considerable fraction of imported watches sell in middle price ranges where they create new business not much exploited before by American companies. Swiss competition has also encouraged American industry to switch to the many-jeweled watches in which its position is relatively strongest.25 Furthermore, the Hamilton, Waltham, and Elgin companies all are now importing Swiss watch movements to install in American cases.

Mr. J. G. Shennan, president of the Elgin National Watch Company, is one businessman who is adjusting his business to lower tariffs in an enterprising spirit. After President Truman had blocked a recommended increase in the tariff on watches in 1952, Mr. Shennan acknowledged that Mr. Truman's decision

reflects a widespread belief that a reduction of tariff barriers will further the interests of world peace. However much it may distress him personally, no responsible American can deny the general wisdom of such a policy. . . .

Mr. Shennan prepared for two years to diversify Elgin's production. In 1950 Elgin bought the Wadsworth Watch Case Company of Kentucky, which made compacts and emblems as well as watch cases. A year later Elgin bought the Hadley Company of Rhode Island, which made watch bands, cuff links, tie clasps, and so on. Elgin began importing Swiss watch movements for the Wadsworth cases and began making compacts, emblems, and product name plates. Mr. Shennan set up a new department to design both the watch and jewelry product lines and combined the Wadsworth and Hadley acquisitions into a single sales division. He also got $23 million worth of technical military orders. In the meanwhile, Elgin started making a diamond abrasive jewel-and-tool-polishing compound that it had developed during the war. Elgin has also been working on a battery-run watch that keeps almost perfect time. Partly as a result of such enterprise, Elgin sales rose from $30 million in 1950 to $43 million in 1951 and to around $50 million in 1952. Mr. Shennan modestly says that he has found a better answer to foreign competition than tariff agitation.26

Another industrialist who feels that American industry must adjust to lower tariffs is Mr. Charles H. Percy, president of Bell & Howell, whose cameras now get heavy tariff Protection. According to *Fortune,* Mr. Percy is convinced that in the long run freer trade is bound to come and that Americans are bound to be better off for it. Mr. Percy has set up an executive group in Bell & Howell to judge what would happen to the company if tariffs were halved or entirely abolished.

Stressing the value of a flexible industrial structure in a speech in November 1952, Mr. A. B. Sparboe, vice-president of Pillsbury Mills, said:

To the die-hards who think they are entitled to more than a competitive chance, I have only this to say: When millions of men are prepared to make the supreme sacrifice in war for the benefit of survivors, what is so unreasonable about expecting the rest of us to make economic adjustments—for the benefit of society—that are but a mockery by comparison?

If it were held politically or ethically desirable to do so, the government might give readjustment benefits to industries hurt by the end of Protection. Industries might get loans or even outright grants to ease their shift into making products whose markets would expand under Free Trade. Displaced workers might get extra unemployment compensation, free re-training, and free help in moving to new jobs. Adjustment to Free Trade might be thought worthier of government help than adjustment to technological change because a government decision forced it. However, in adopting Free Trade, the government would not be discriminating against certain industries but just ending its earlier discrimination in their favor. The question is: Do recipients of governmental favor have a vested right either to keep on getting it or to get compensation when it stops? My personal opinion is against compensation; there is too great a risk of setting a precedent for people who in the future would claim indemnity for technological changes and shifts in consumer preferences. As a matter of economics, though, it is worth noting that the cost of readjustment benefits would be slight compared with the gain that Free Trade would give the country as a whole. The comparison is particularly striking when we realize that adjustment benefits would soon be no longer necessary, while the gains from Free Trade would go on year after year.

HOW TO SET TRADE FREE

Economic analysis of Protection and Free Trade does not automatically translate itself into a program of action. Only the American people themselves, through their representatives, can implement a decision between continued or even intensified Protection on the one hand and Free Trade on the other.

A decision for Free Trade would leave several important questions still open. For instance, should Free Trade be adopted on a cautious commodity-by-commodity basis or on an across-the-board basis? An across-the-board approach would let each producer gain by cheaper imports of products not competing with his own. The damage a producer might feel from import competition would be partly offset by his gain as a consumer and as a buyer of raw materials. Furthermore, an industry might be more willing to make adjustments if other industries facing de-Protection were in the same boat. Across-the-board tariff abolition could be made a matter of principle, while a piecemeal product-by-product approach would degenerate into unprincipled wrangling. Under a piecemeal approach, the groups with greatest political strength would hold on to their tariffs longest; and in time the whole idea of Free Trade might get sidetracked amidst the logrolling.

A related question is whether Free Trade should be adopted through one single law or through a series of laws. The one-law approach, while avoiding protracted indecision and uncertainty, need not mean putting Free Trade into effect at one swoop. Though much can be said for making the transition quickly and getting it over with, something can also be said for a gradual transition giving de-Protected interests time for painless adjustments. One of several promising alternatives is a law, passed once and for all, that would bring complete Free Trade within a few years. Such a law might well junk the "Buy-American" rules at once. It might cut import duties steadily towards zero by perhaps 2 per cent a month from initial levels. Import quotas and all other trade barriers could be liquidated over the same period of time.

THE IMPORTANCE OF NOT WEASELING

Free Traders should speak out bluntly. They should argue not for lower tariffs, not for reciprocal trade agreements, not for freer trade, but for *Free* Trade—the complete end to government interference with imports and exports.

All too many people have metaphysical notions about historical "trends." For some reason too mysterious to specify, Free Trade, among other things, is out of the question as a practical possibility for today's world. Bruce Bliven, for instance, once dismissed William Graham Sumner's arguments for Free Trade as "so tangential to the real problems of the present day" as hardly to hold any meaning. A *New York Times* editorial of February 1953 calls for "the liberalization and quickening of trade" but announces that "Free trade is not a realistic issue." The columnist Andre Visson is all for "freer trade" but dismisses Free Trade as a "dream."

People who make knowing remarks such as these get a reputation for being practical, reasonable, realistic. Practicality, reasonableness, realism take the place of thought. True Free Traders should not care about a cheap reputation for practicality, reasonableness, realism. If people who really understand the case for Free Trade are afraid to state and keep emphasizing it, then who on earth will? Professor Henry Simons is right: there is something immoral about trimming one's analysis out of concern for what is thought fashionable or politically practicable. As Mr. F. A. Harper once said, all too many politicians these days are trying to act like economists and all too many economists are trying to act like politicians.

The British economist Sir Dennis Robertson tells us not to mind whether or not the "temper of the age" makes some policy "politically impossible": "Let us get the analysis right. . . ." In a similar vein, Albert Rees discounts concern with political difficulty: "Unless thinking people try to decide what the best policies are, and then try to influence actual policy in the appropriate direction, there is no point in discussing policy issues at all."

It is probably true, though incidental, that outright advocacy of Free Trade will in the end be more effective than hedging about freer trade. Failure to come out flatly for complete Free Trade seems like a tacit admission that Free Trade is harmful after all. People can then logically wonder, "Well, if Free Trade is harmful, why not keep far, far away from it?" Besides, questions of a little less Protection here, a little more there, do not pose a clear issue. It is not possible to specify a rational stopping-point between Protection as it exists today and Free Trade. To allow exceptions to Free Trade is to open the door to logrolling and hence to a false consensus in support of Protection. Free Trade, on the other hand, is a discussable issue. Such an issue, as a matter of principle, gives the legislator an "out" in declining to help his constituents get special privileges in opposition to the general welfare.

Perhaps practical politicians cannot be blamed for making tactical compromises. One should always distinguish clearly, however, between the goal that one is aiming at and the makeshift that one accepts for a while as better than nothing. One should realize, with Professor Gottfried von Haberler, that Protectionism cannot be outwitted: it must be conquered by a head-on attack. Professor Haberler ends as follows his book on *The Theory of International Trade:*

There is only one way out. It is to take the bull by the horns, to fight the spirit of Protection, to spread far and wide correct ideas about international trade, and to confront the organized forces of sectional interests which support Protection with a powerful organisation drawn from those who suffer from it, that is, from the vast majority of the people of the world.

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Leland B. Yeager, an instructor at the University of Maryland, has taught economics both on the College Park campus and in the University's European program. Monetary and international economics are his special interests. He recently earned his Ph.D. at Columbia University with a dissertation on freely-fluctuating exchange rates.

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[1]Since this was written, early in the summer of 1953, Congress has passed a watered-down Customs Simplification Act that adopts some of the less controversial of the timid reform proposals referred to in the last paragraph of this section. For instance, undervaluation penalties are dropped, the use of the entered value when higher than the final appraised value is ended, and marking requirements are eased.

[2]*Economic Sophisms* (translated by Patrick James Stirling, New York: G. P. Putnam's Sons, 1922), pp. 69-70.

[3]*Protection or Free Trade* (New York: Robert Schalkenbach Foundation, 1949), p. 54.

[4]C. Lowell Harriss, *The American Economy* (Homewood: Richard D. Irwin, Inc., 1953), p. 826.

[5]O. R. Strackbein, *The Tariff Issue Reviewed and Restated* (Washington: The National Labor-Management Council on Foreign Trade Policy, 1951), p. 2.

[6]N. I. Stone in the *Freeman,* June 15, 1953, p. 671.

[7]*Protection or Free Trade,* p. 37.

[8]*Economic Policy for a Free Society* (Chicago: The University of Chicago Press, 1948), p. 70.

[9]Howard S. Piquet, *Aid, Trade, and the Tariff* (New York: Thomas Y. Crowell Company, 1953), p. 8.

[10]Quoted in [Harry C. Hawkins and others], *International Trade Policy Issues* (Washington: Chamber of Commerce of the United States, 1953), p. 27.

[11]Lawrence W. Towle, *International Trade and Commercial Policy* (New York: Harper & Brothers, 1948), p. 328.

[12]See *Hearings before the Committee on Ways and Means, House of Representatives, Eighty-Second Congress, First Session, on H.R. 1612* (January 1951), pp. 225-228, 601-602.

[13]Norman Campbell, *What Is Science?* (New York: Dover Publications, Inc., 1952, $1.25), first quotation from p. 181; second from p. 174.

[14]*Hearings . . . on H.R. 1612,* p. 372.

[15]*Protection or Free Trade,* p. 105.

[15a]The general case for complete Free Trade does not, in my personal opinion, argue for unrestricted trade between the free world and its enemies while the cold war lasts. The objection to such trade is not that our enemies would send us their products. Receipt of many useful things, after all, could in itself only be of benefit to us. The objection, rather, is that our enemies would probably reap even greater benefit from the things we would send them in return.

[16]Frederic Bastiat has effectively mocked this "purchasing-power argument" in his "Petition of the Candlemakers," condensed below in the section on "Cheap Imports."

[17]*Protection or Free Trade,* p. 103.

[18]*Economic Sophisms,* p. 216.

[19]*Business Week,* April 25, 1953, pp. 162-163.

[20]*Protection or Free Trade,* p. 36.

[21]Sir William Beveridge and a Committee of Economists, *Tariffs: The Case Examined* (London: Longmans, Green and Co., 1931), p. 233.

[22]*New York Times,* 20 July 1952, p. 7E.

[23]The percentages are from Public Advisory Board for Mutual Security, *A Trade and Tariff Policy in the National Interest* (Washington: U.S. Government Printing Office, 1953), pp. 8-9, with a few farm-product percentages from [Office of the Commercial Counselor to the French Embassy], *A New Look at Our Economic World* (Washington: 1953), p. 19.

[24]See the French-Embassy booklet last cited, pp. 17-19, or [Harry C. Hawkins and others], *International Trade Policy Issues* (Washington: Chamber of Commerce of the United States, 1953), p. 58. By their very nature, such employment figures cannot be precise.

[25]*International Trade Policy Issues,* p. 33.

[26]*Fortune,* March 1953, p. 207; *Time,* January 12, 1953, p. 83.