

# Free Trade for England

THE British Prime Minister's Protectionist campaign has ended in disaster. He contended that new facts have changed the significance of old proposals; and in the light of the result, the present moment is perhaps an appropriate one at which to remind ourselves of some principles which have certainly not changed.

Free trade is based on two fundamental truths which, stated with their due qualifications, no one can dispute who is capable of understanding the meaning of the words:—

I. It is better to employ our capital and our labor in trades where we are relatively more efficient than other people are, and to exchange the products of these trades for goods in the production of which we are relatively less efficient.

Every sane man pursues this principle in his private life. He concentrates his energies on those employments where his efficiency is greatest in comparison with other people's; and leaves to others what they can do better than he can.

There are four, and only four, recognized types of exception to this principle, which apply equally to nations and to individuals:

1. If, for non-economic reasons, a particular trade, or the conditions in which it is carried on, are degrading or unpleasant, or if, on the other hand, they are peculiarly desirable, we may recognize such facts by prohibitions and by encouragements. Such cases are certainly not to be found amongst manufactured imports or exports as a class. Many believe, however, that the encouragement of agriculture comes under this head.

2. If a particular article or service is of such a kind that it is not safe for nations or individuals to leave themselves entirely dependent on the services of outsiders, this is a reason for insisting that we should retain at least the capacity for providing it at home. This is the case of "key industries." It is already covered by existing legislation. The main objection to such legislation is that, under cover of it, Protectionists are apt to slip in articles which do not really satisfy the conditions.

3. Where relative inefficiency is due to a remediable lack of practice or of education, on the part of our own industries, it may be worth while to spend something on gaining the necessary experience. This is the case of "infant industries." Here again the objection is that Protectionists are apt to father on it elderly or unpromising "infants." It can hardly occur in an old industrial country, such as England, except in an industry based on a new invention. I do not know any important case of this, except possibly that of the motor industry—already heavily protected.

4. Where, for special reasons, the cheapness of

the imported goods does not look like being permanent, yet may bankrupt and destroy our own organization so long as it lasts, temporary measures may be justified. This is the case of "dumping" and of imports from countries of depreciating currency. Generally speaking, the occasions for action under this head are not so common as may appear at first. We have to weigh the direct benefit of getting the goods cheap against the indirect injury done to our organization. It is not true, at present, that we are suffering seriously under this head; and in so far as it can be proved that we are suffering in particular cases, this is already provided for by existing legislation.

II. The second great principle is that there can be no disadvantage in receiving useful objects from abroad. If we have to pay at once, we can only pay with the export of goods and services, and the exchange would not take place (subject to the necessary exceptions just stated) unless there were an advantage in it. Every export which is not paid for by an import represents a decrease in the capital available within the country.

Thus an artificial interference with imports must *either* interfere with exports *or* involve an artificial stimulation to capital to leave the country. Now, if we are to interfere at all with the natural course of trade, surely it would be with the object of keeping capital at home, not of driving it abroad. With our shortage of housing and the need of factories and equipment to render efficient our growing supply of labor, we need to keep more capital at home, and so to arrange matters that our surplus resources are occupied in increasing our own equipment for future production and for the shelter of our own population. There is already, in my opinion, too much encouragement to the export of our capital. With our diminished savings and our increasing needs, we are not in the position in which we used to be for sending our goods to the rest of the world and getting back, for the time being, nothing whatever in return.

Our imports are our income. To put obstacles in their way is to be as crazy as a business man would be who tried to prevent his customers and his debtors from paying their bills.

Neither of these principles is in the least affected by whether or not foreign countries impose tariffs.

There is a third argument for free trade, but one far less absolute and more relative to changing circumstances than the first two,—namely, the principle of *laissez-faire*. This is never a final argument. The old view, that the self-interest of individuals, operating without interference, will always produce the best results, is not true. As knowledge increases and the arts of government

improve, the public good requires many checks on the unregulated acts of individual traders. Nevertheless, in a case like this, where lobbying, expense, waste of time, and friction of all kinds will endlessly ensue, we require, to justify the change, not the momentary caprice of a minister who is short of material for a speech at a party gathering, but solid and certain advantages to the state, carefully thought out and clearly explained.

There are three principal objects, other than the prevention of imports, for which import duties have been proposed at various times:

1. The favoring of imports from some sources of supply rather than others, namely *Preference*.
2. The annoyance of foreign countries, in the hope that they will offer you some concession to abate the nuisance, namely *Retaliation*.
3. The exploitation of a position of monopoly or partial monopoly, in order, by restricting the volume of trade, to get a more favorable ratio of exchange, namely, *Making the Foreigner Pay*.

In each of these cases it is a question of where the *balance* of advantage lies. There is nothing whatever new about them. They have been argued out, up and down the country, hundreds of times. I need only point out that the last of them is peculiarly inapplicable to our present circumstances. The imposition of an import or export duty with this object in view is equivalent to a combination of producers to extract from their customers a price higher than the competitive price. Such action is very imprudent unless those who take it feel confident as to the strength of their monopoly position and as to the inability of their customers to go elsewhere. It is not aimed at expanding the volume of trade; but the contrary. It is an attempt to get better terms from foreigners by contracting the volume of trade. Such an attempt would without doubt be exceptionally ill advised at a time when we are already losing trade by charging too high.

The complication of the free trade issue has generally arisen in the past from the fact that, whilst Protectionists have really wanted protection for its own fallacious sake, they have generally advanced under a thick smoke-screen of the exceptional cases,—Agriculture and Race-Virility, Key-Industries, Infant-Industries, Dumping, Preference, Retaliation, and Making the Foreigner Pay. It is always more difficult to prove in a few words that certain possible advantages are unlikely or infrequent, than to meet the straight case—where there is and can be no advantage at all. This time, however, the air has been clearer. There is no talk of food taxes. The only important industry—the motor industry—which could by the wildest stretch be called an infant, has a heavy duty already. Key-Industries and Dumping are covered by the Safeguarding of Industries Act. Preference is already

accorded almost to the full extent that is possible without food taxes. “Making the Foreigner Pay” is a preposterous idea just now for the reasons given above. There remains Retaliation available for an occasional mention. But the worst of this cry is its utter inconsistency with the main cry of providing permanent employment. For it is of the essence of Retaliation that the duties are put on with the idea of taking them off again, soon and suddenly, when they have served their purpose. It is obvious that no expansion of home industry could be started under the precarious and deceptive shelter of retaliatory duties.

The truth is that since the war we have been experimenting (unwisely, in my opinion) with all the more plausible cases for protection, and already have quite a formidable array of trade obstacles. It has been reserved, therefore, for Mr. Baldwin, the last and most foolish protagonist of this old play, to plunge headlong into pure error of the  $2+2=5$  variety.

For if there is one thing that protection *cannot* do, it is to cure unemployment. It is the central idea of protection *to contract trade*,—for the advancement of various ulterior objects which may or may not be wise. The characteristic of protection—admitted, I should have thought, by friend and foe alike—is that it is an attempt to trade on better terms or on nationally more advantageous lines at the expense of doing less business. The free trader has always been the expansionist,—the man who is accused of exchanging with the foreigner too cheap or sacrificing the character of the business, merely for the sake of carrying on a *large* trade. Whoever, before Mr. Baldwin, dared to assert that putting obstacles in the way of trade would *increase its volume*?

There are some arguments for protection, based upon its securing possible but improbable advantages, to which there is no simple answer. But the claim to cure unemployment involves the Protectionist fallacy in its grossest and also in its crudest form.

Protection must mean—to this there is no exception—an attempt to limit the volume of trade; it must mean charging the foreigner more (more, measured in terms of goods demanded against goods supplied) at the expense of doing less trade with him. And insofar as the keeping out an import does not involve a corresponding restriction of export, it must drive some capital out of the country.

Our problem is to find expanding markets and an increased capital equipment for a growing industrial population. A proposal to solve this by contracting markets and encouraging the export of capital is an imposition on the credulity of the country.

JOHN MAYNARD KEYNES.

## Amends to the Manes

**T**HERE are two men to whose Manes I owe amends. It is not for any positive wrong I did them—for positive wrongs do not reach beyond the grave. My sin was the meaner and more injurious one of omission. Having had converse with these men, I yet lazily took the bowed and grizzled figures before me as the whole picture, indifferent to the lives of striving and achievement of which the figures were but weathered hieroglyphs. If either of these men had written a sonnet that had embedded itself in an anthology, or had painted a portrait glowering obscured in a museum corner, I should have been curious about their lives, interested in the quality of the mind still glowing through the mask of their aged faces. But they were cattle breeders. The material they worked in was the living animal, and the meat and milk that stand as its ultimate purpose. Like the good artist, they worked without thought of personal reward or recognition. Their days were full of care and their dreams bright with visions. I made nothing of them, because I was enslaved to the current fashions in values, which stupidly rate men according to the material in which they work, ascribing a high place to those who express themselves in marble, bronze, pigments and rhythmic sentences and a lowly place to those who work with materials vulgarly accounted vulgar. I might excuse myself if I could truthfully say that I accepted the social scale of values. But I do not. I recognize it for what it is, a wholly untrustworthy accretion of unfounded dogma, superstitious fears, imitative enthusiasms. I take it for a basis of judgment only in matters to which I am indifferent. Thus I stand convicted of indifference to two of the most valiant personalities I have ever encountered.

The one was a western farmer named Dibble, whom I knew when I was a boy, and esteemed chiefly because he was the father of a youth of amazing intellectual promise, which, alas, was blighted by ill health. On his rich acres Dibble maintained some seven fat cattle of a breed unlike any I had ever seen, though I lived on a thoroughfare where perhaps seventy thousand cattle, red and white, spotted, brindled, roan, long horned or crumple horned or polled, made their way to the western grass lands every spring in bellowing droves extending from horizon to horizon.

Thirty-five years have passed, and Dibble's seven fat kine have eaten up the seventy thousand many colored scrubs. The white faces and sleek red bodies of the descendants of Dibble's herd glisten on a thousand hills. Some years ago I saw a beautiful herd in Dakota, five hundred miles to the northwest; I was told that their pedigree ran back to

Dibble's famous herd. Then I recalled the man, of medium height, thick set, with wide ruddy face trimmed with a white beard, deep eyes and a formidable straight nose. He had some difficulty in manipulating his speech and was usually silent until an accumulation of emotion over political injustice or the blindness of the farmers to the possibilities of improvement overwhelmed him. Then his chest would heave and his features would work painfully, until speech came in a resistless torrent. When he had once spoken there was no more to be said.

That is all I know about Dibble. It is enough to show that he was very much of a man, and that I was a fool not to cultivate my opportunity of knowing more about him. The other man I neglected was Solomon Hoxie.

I knew Solomon Hoxie only as the father of Robert Hoxie, the brilliant economist of Chicago University, whose untimely death left American economics immeasurably poorer. Solomon Hoxie was a superb octogenarian, supple in body and mind. I used to meet him coming from his vacant lot garden with a huge basket of beans, beets and golden corn, a gift for some devitaminized flat dweller's table. He would pause for a moment to make a cheerful comment on the ways of nature, or to insert a word of propaganda for Christian socialism, to which he had recently become a convert. I knew that he had played an active part in the building up of the standards of the black and white dairy cattle that have been generally called Holstein, but should be called Friesian. I was not interested in cattle and stupidly ignored the fact that cattle may be the material of a significant life. Solomon Hoxie remained a closed book to me. I have come to know him better, since, and to value him. And now I have in my hands a biography published by his daughter, Jane Hoxie\*, a modest piece of work and a competent one. I wish we had as good a biography of each one of the other ninety-nine creative Americans of Solomon Hoxie's generation. We should have the material for writing about real Americanism. It could then be proved conclusively that those who pass sweeping condemnations on America and American culture, no matter how brilliant, are dead wrong. Since we cannot have the hundred biographies, we'd better be grateful for those we do have. Of these Jane Hoxie's book is one of the best.

When next you drink a glass of milk, spill a bit of the cream as a libation to the Manes of Solomon Hoxie, for the chances are, there is some of his work in the bland white fluid you are tasting. It

\* Solomon Hoxie, a Biography, by Jane Hoxie. Published by the Author.