Fifth International Conference to promote
Land Value Taxation and Free Trade,
Caxton Hall, Westminster, London, S.W.1
1st to 5th September, 1936.

Reactions and Results of Trade Restrictions

Observations on a National Experiment of State-controlled Foreign Trade

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Statesmen of almost any country of the world are willing to tell you that all the evils, the sorrows and the dangers of the economic crisis have been forced upon their own country by other nations. The self-sufficiency desires of *other* nations are everywhere considered sufficient defence for joining the madness of national self-sufficiency and for undertaking such measures that are supposed to further the national self-supply. Foremost amongst these measures are naturally the restrictions on foreign trade, the tariffs, quotas, bi-lateral trade agreements, etc., which we can label with the name of Trade Restrictions.

If you live in a large country with a complex economic structure it may not be so easy to learn from the actual results of trade restrictions how they really work. It is my belief that we, who live in a comparatively small country, with a less complicated economic structure, may more easily find the touchstone by which to test the value of such trade restrictions. This is the reason why some observations on the Danish experiment of State-controlled foreign trade may be of interest at this International Conference.

For the last four and a half years practically the entire Danish foreign trade has been under the control of the "Foreign Currency Department" of the Danish National Bank. Exporters of Danish goods are compelled to put all payments for their export sales at the disposal of the National Bank (though they may deposit through a number of ordinary banks) and all importers of foreign goods must apply to the Foreign Currency Department for import permits before they are able to declare or enter foreign goods into Denmark. You are not allowed to import an automobile or a pair of shoes, not a lump of coal nor a piece of soap into Denmark without the consent of this Department. (Valuta-Kontoret.)

When Great Britain went off the gold standard in September, 1931, Denmark decided to join what has later been termed the "Sterling Group." Certain measures were adopted by the National Bank in order to enable itself to control the foreign currency exchange, but the power of control of the foreign trade was not given the National Bank until January, 1932. At that time

Germany doubled the import duty on Danish butter, thus endangering our butter exports to Germany, which at the time amounted to about £3,000,000 a year. The fear of the results of the alleged decrease of this comparatively small part of the Danish export trade (totalling for 1931 about £90,000,000) opened the road for the legislation which put the entire foreign trade under a State control, the likeness of which was only to be found in Soviet Russia or in the history of Mercantilism, of 150 years ago.

The import control of the Foreign Currency Department (Valuta-Kontoret) is intended to serve a triple purpose, namely :—

(1) Safeguard the Danish currency.

(2) Serve employment and production purposes.

(3) Serve as an instrument for foreign trade policies (" active trade politics ").

It was evident that a decrease in export sales would leave the nation with lessened means for purchases of import goods, but the novel idea was this : that under such circumstances there would be the risk that the foreign currency funds of the nation might be spent on an import of manufactured goods and " luxuries," so that there would be no adequate funds for payment of raw materials to agricultural and industrial enterprises. Lest this should happen or lest an overwhelming import should endanger the rate of exchange of the Danish currency, a Bill was passed giving the Minister of Trade and Industries the extensive power of control over foreign trade through the said office of the National Bank, at the same time furnishing an instrument by which to open the doors of foreign nations to Danish goods, by using Denmark's buying power as an equivalent.

A numbered list classified about 200 different groups of goods, comprised in 20 main groups, and the import of any goods in any of these groups was prohibited unless the office furnished an import licence for the goods under the said group. Import licences are issued three times a year for periods of four months each time, and the importer must, one month before the licences are issued, fill out an application stating the *amount* for which he intends to buy goods of any of the 200 groups during the next four (five) months, from which *country* he intends to buy them, and from which country the goods originate.

When all these applications have been collected from the thousands of importers and after they have been summed up, the Currency Control Board will decide how large a sum it will allow for any group and for purchase in the various foreign countries, and the amounts will be allotted to the applicants in proportion to the sums for which they have demanded import licences. The total sum for which import will be granted is fixed by the Control Boards in proportion to the supposed total amount of the country's exports for the same future period. The decision as to what kind of goods will be permitted, and the decision as to where the goods must be purchased, is made from a complex consideration of questions related to current trade agreements, the quotas of foreign countries, etc., and also of questions related to industrial protection and self-sufficiency. With some slight exceptions, the right to apply for import permits is limited to those importers who were importing in the year of 1931, and the import permits are given in proportion to their import during that year.

Said in a few words, this system sets aside some of the most important functions of the individual merchants and puts the whole import trade under control of an office staff with but little understanding of trade affairs. The importers can no longer purchase what they reckon the market needs, they can no longer buy the goods in the quantities they want, nor at the times when they deem it most profitable, and they cannot buy in those markets where they wish to buy.

Needless to say, the immediate result of such restrictions is an abolition of the natural price-quotation, as the result always will be when other factors than Demand and Supply are involved in the fixing of the price. A very moderate estimate last year showed the total of the overcharge paid on Danish imports to be somewhere between two and a half and five million pounds sterling, which is more than the total value of that butter export to Germany, which caused us to adopt the control system. Of course, the Danish consumer does not get off as cheaply as that. Besides the overcharge paid out to the producers in those countries where importers are permitted to buy, the Danish consumer must pay an overcharge to the importer and retailer, which is natural when the import quantities are curtailed, and the overcharge will, of course, be largest on those kinds of goods on which the restrictions are in reality an embargo. The further result of these overcharges is that the costs of the national production rise artificially, leaving the production less competitive in the international market. It is not quite clear how a procedure like this is likely to further the first purpose of the system : Safeguarding of the currency.

With regard to the second purpose of the system : Safeguarding national production and combating unemployment, the system has not been very different from others of those trade restrictions which are usually tried for the same purpose, such as protective tariffs. Naturally sound and competitive lines of production are putting some of those now employed *out of work*, and some new industries, which are established under shelter of the restrictions, are putting some unemployed *to* work, so that the employment is temporarily on the march towards lines of production which are naturally the weakest. At the end of the year 1934, those industries which had advanced as the result of the trade restrictions, employed some 20,000 people more than in the last normal year of 1930, while the industries that could not benefit from the restrictions had about 5,000 people fewer working. The net result of these revolutionary trade restrictions was so far to put about 15,000 people back to work (including 11,000 women workers, out of whom not less than 7,500 were absorbed by the clothing industry and who were mainly taken away from household work). With a permanent unemployment in Denmark of some 100,000 workmen, the result is not overwhelmingly large !

For the furthering of national production—the self-supply ideal—the system soon proved to be a two-edged sword. In the beginning, the Foreign Currency Department worked mainly with curtailing of the import of finished goods and a more liberal import of raw materials for the older and also for the new established industries, which was in accordance with the political assumptions for establishing the system. But in the long run this function of the system was doomed to conflict with the last purpose. The system as an instrument for foreign trade policies. Countries to which Denmark was connected by the bands of trade very soon showed reactions towards her way of bargaining: offering to buy raw materials only, in return for finished goods, industrial and agricultural. It is, however, the wish of almost any country haunted by the idea of self-supply, to import raw materials and to export finished goods. As long as individual merchants are more or less free to carry on the trade, such wishes will influence the direction of international trade very little, for not even the most determined desire to sell goods will lead to trade, if the corresponding demand does not exist. But when a government establishes a system, by which it is able to dictate the direction of the country's purchases, the selling desires of the most powerful groups of producers of other countries will soon be put forward through the respective governments and their commercial attachés; and reluctance in meeting the selling desires will eventually result in further trade restrictions, with the view of closing the respective market for the other nation's export goods.

Denmark learned this lesson. Instead of being instrumental in opening foreign markets for Danish export products, the system has now become one that either closes other markets for Danish products, or forces us to buy from our customers, not what we naturally would buy, but rather what they want to sell. The sword is picked up by the other party, and it is discovered that the reverse edge is rather sharp. Instead of working towards securing for older or new established industries the necessary raw materials, the system now threatens even the soundest of the national industries with the lack of raw materials. For if we wish to keep up our exports, we must buy foreign finished products, and if they are too costly to compete with the corresponding Danish product, the import of raw materials for that product must be curtailed, so that the more expensive foreign product can find its way to the consumers, and so that the trades agreement with the foreign country thus may be kept. Thus the system that was meant to fight industrial depression works to make that depression a permanent one.

Everywhere it is the least competitive branches of production which demand the most protection* and aid through legislation and commercial diplomacy. Consequently it will often be the economically most undesired goods you will have to trade for your own. Trade between governmental departments, instead of between individual merchants, is often carried out as in the fairy-tale of Hans Andersen: The man who traded his horse for a cow and went on trading; well, he returned home with a bag of rotten apples. (His wife was perfectly satisfied, and no wonder: papa had done a lot of trading and he had kept his balance of trade in the best of shapes, valuable export and valueless import.)

I think we can see from the Danish experiment how dangerous trade restrictions are. That they are dangerous economically need not be explained here. Bi-lateral trade agreements are but little, if any, better than the absolute self-sufficiency policy. At their best they mean self-supply for a somewhat larger group of people. But the danger of the trade restrictions has many aspects. If a local and a foreign merchant cannot agree as to the prices or terms of a bargain, the story is ended at that. But if they have

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* In 1933, twelve of the most highly protected industries in Denmark had a production to the value of £14,000,000 out of which their export amounted to £360,000. The export from the non-protected (low- and negatively-protected) industries amounted to £11,000,000 or 97 per cent of the total export of industrial goods.

their governments to deal for them, such sordid matters become affairs of State importance and subject to secret diplomatic negotiations. Thus they no longer involve the two respective merchants or their mutual feelings but involve the feelings of peoples. And governmental trade restrictions tend to endanger the inner conditions of a nation as well. Any one class of producers wishes the government to take special precautions for the benefit of their own line of production and let the other lines of production pay the bill. The restrictions thus tend to split up the nation solely on the lines of economic interests, and they tend to further the State's interference with all sides of the nation's economic life. The more power the administration is endowed with, the less influence has the legislative power. Ministers of State and their secretaries are given powers of control which cannot in the long run be separated from legislative bodies if democracy shall survive.

What power is upholding the trade restrictions, which are so dangerous for the welfare of nations and peoples ? Apparently the wishes for self-sufficiency. But self-sufficiency is not the politics of the ordinary man. As a consumer he always wishes to buy his goods as cheaply as possible, in spite of all influence from the various self-supply organizations : " Buy Danish," " Buy British," etc. When the ordinary man subjects himself to self-sufficiency interests, it is because he sticks to the old mercantile superstition that export is useful and import is hurtful. Behind all defence for the various restrictions on international trade, we find the ghost of the " favourable trade balance." There is the point where we have to exert our efforts to enlighten our countrymen. In a small country we often hear people, who really favour the idea of Free Trade, say that it is impossible to revert to the so-called Free Trade of the past, until the *big* countries make a beginning. I suppose that in larger countries you find the same thought, only that it must be the *small* or the *other* countries that must start. It is our task, however, to make our countrymen understand that the period of the past was not one of true Free Trade, and further that Free Trade is under all circumstances an advantage for the country adopting it, no matter what trade policy other nations adopt.

The world to-day gives us the best proof that trade restrictions are a hindrance for getting out of industrial and other depression, although the advocates of self-supply will explain any sign of industrial revival as a result of the restrictions. In this connection I wish to quote some words recently uttered by the President of the German Reichsbank and German Minister of Economy, Herr *Hjalmar Schacht* : " In spite of the poor horoscope, which self-supply fanatics are casting for the world economy, yet it is just the healing economic powers, which are trying to prevail, in spite of all political hindrances."

In their fight against trade restrictions, Free Traders have powerful enemies. Free Traders appeal to men's common sense, while those who are interested in protection and restrictions talk to their narrow-minded, competitive self-interest. And yet the Free Trade doctrine will be the policy of the future ! To substantiate this assertion I shall shortly mention the results which the well-known Swedish economist, Professor *Eli F. Heckscher* arrived at after a study of " Displacements of Social Classes after the War."

Professor Heckscher shows that in spite of all the protectionist efforts to give Agriculture and Industry a preference, it is a world-wide tendency that just these two productive factors are no longer able to employ the same percentage of the populations as before. Almost anywhere in the white man's world the mechanization of agriculture and industry has had the result that though the production is steadily growing, yet the amount of people engaged in these productions is steadily decreasing. But it takes an increasing amount of people to look after the distribution of goods. This work cannot be mechanized beyond certain limited lines, because it is more the work of the head than the work of the hand. Trade, Navigation and Transportation in general, are occupying a growing percentage of the populations, in spite of all the restrictions against this link in the chain of production. This is true even of a country like Japan of whose industrial expansion we hear so much. In Japan 53.8 per cent of the population was employed by agriculture in 1920, 21 per cent by industry and mining, 15.5 per cent by trade and transportation. Ten years later the respective figures were 50.4 per cent, 18.9 per cent and 19.1 per cent (*i.e.*, more people engaged by trade and transportation than by industry). For England and Wales the respective percentages changed from 6.8, 47.3 and 24.5 in 1921 to 5.6, 46.2 and 26.9 per cent in 1931. For U.S.A. from respectively 26.3, 33.4, 18.3 in 1920 to 22.0, 30.9, 21.1 per cent in 1930.

For the fourteen countries that Professor Heckscher has investigated, we see that from about 1920 to 1930 the percentage of the population employed by agriculture dropped from 35.1 to 31.3 per cent; industry, mining, etc., from 33.2 to 33.1 per cent; while trade and transportation went up from 16.8 to 18.4 per cent. These figures are significant. Not only because they show quite another displacement of the population than anticipated by certain economists, but because they show us that that part of the population whose interest can be maintained in defending restrictions and protection is steadily decreasing.

In the long run it is politically impossible to make regulations that are contrary to the economical interests of those social classes on which society must rely for employment of the population. Even though people might not be able to see the connection between the employment question and the true Free Trade and land question, we have reason to believe that, when the inability of protection to create employment becomes evident through this displacement of the social classes, it will no longer be possible to practise the politics of trade restrictions. So though Free Traders may have powerful enemies, they also have strong allies: the economic development, the future!