

## FALLACIES OF PROTECTION

### Dearness—Cheapness

(From Frederic Bastiat's "*Sophismes Economiques*."  
Translated by P. J. Stirling, *Second Series, Chapter III*.)

I think it necessary to submit to the reader some theoretical remarks on the illusions to which the words *dearness* and *cheapness* give rise. At first sight, these remarks may, I feel, be regarded as subtle, but the question is not whether they are subtle or the reverse, but whether they are true. Now, I not only believe them to be perfectly true, but to be well fitted to suggest matter of reflection to men (of whom there are not a few) who have sincere faith in the efficacy of a protectionist policy.

The advocates of Liberty and the defenders of Restriction are both obliged to employ the expressions, *dearness*, *cheapness*. The former declare themselves in favour of cheapness with a view to the interest of the consumer; the latter pronounce in favour of dearness, having regard especially to the interest of the producer. Others content themselves with saying: *The producer and consumer are one and the same person*; which leaves undecided the question whether the law should promote cheapness or dearness.

In the midst of this conflict it would seem that the law has only one course to follow, and that is to allow prices to settle and adjust themselves naturally. But then we are attacked by the bitter enemies of *laissez faire*. At all hazards they want the law to interfere, without knowing or caring in what direction. And yet it lies with those who desire to create by legal intervention an artificial dearness or an unnatural cheapness to explain the grounds of their preference. The burden of proof rests upon them exclusively. Liberty is always esteemed good till the contrary is proved; and to allow prices to settle and adjust themselves naturally is liberty.

But the parties to this dispute have changed positions. The advocates of dearness have secured the triumph of their system\* and it lies with the defenders of natural prices to prove the goodness of their cause. On both sides the argument turns on two words; and it is therefore very essential to ascertain what these two words really mean.

But we must first of all notice a series of facts which are fitted to disconcert the champions of both camps.

To engender *dearness* the restrictionists have obtained protective duties, and a cheapness, which is to them inexplicable, has come to deceive their hopes.

To create cheapness, the free traders have occasionally succeeded in securing liberty, and, to their astonishment, an elevation of prices has been the consequence.

For example, in France, in order to favour agriculture, a duty of 22 per cent has been imposed on foreign wool, and it has turned out that French wool has been sold at a lower price after the measure than before it.

In England, to satisfy the consumer, they lowered, and ultimately removed, the duty on foreign wool; and it has come to pass that in that country the price of wool is higher than ever.

And these are not isolated facts; for the price of wool is governed by precisely the same laws which govern the price of everything else. The same result is produced in all analogous cases. Contrary to expectation, protection has, to some extent, brought about a fall, and competition, to some extent, a rise of prices.

When the confusion of ideas thence arising had reached its height, the protectionists began saying to

their adversaries: "It is our system which brings about the cheapness of which you boast so much." To which the reply was: "It is liberty which has induced the dearness which you find so useful."

Evidently there is in all this a misconception, an illusion, which it is necessary to clear up; and this is what I shall now endeavour to do.

Put the case of two isolated nations, each composed of a million of inhabitants. Grant that, other things being equal, the one possesses double the quantity of everything—corn, meat, iron, furniture, fuel, books, clothing, etc.—which the other possesses.

It will be granted that the one is twice as rich as the other.

It may be that in the United States everything is nominally *dearer* than in Poland, and that the population of the former country should, nevertheless, be better provided with all that they need; whence we infer that it is not the nominal price of products but their comparative abundance, which constitutes wealth. When, then, we desire to pronounce an opinion on the comparative merits of restriction and free trade, we should not inquire which of the two systems engenders dearness or cheapness, but which of the two brings abundance or scarcity.

For observe this, that products being exchanged for each other, a relative scarcity of all, and a relative abundance of all, leave the nominal prices of commodities in general at the same point; but this cannot be affirmed of the relative condition of the inhabitants of the two countries.

Let us dip a little deeper still into this subject.

When we see an increase and a reduction of duties produce effects so different from what we had expected, depreciation often following taxation, and enhancement following free trade, it becomes the imperative duty of political economy to seek an explanation of phenomena so much opposed to received ideas; for it is needless to say that a science, if it is worthy of the name, is nothing else than a faithful statement and a sound explanation of facts.

Now the phenomenon we are here examining is explained very satisfactorily by a circumstance of which we must never lose sight.

*Dearness* is due to *two causes*, and not to one only.

The same thing holds good of *cheapness*.

It is one of the least disputed points in political economy that price is determined by the relative state of supply and demand.

There are then two terms which affect price—supply and demand. These terms are essentially variable. They may be combined in the same direction, in contrary directions, and in infinitely varied proportions. Hence the combinations of which price is the result are inexhaustible.

High price may be the result either of diminished supply or of increased demand.

Low price may be the result of increased supply or of diminished demand.

Hence there are two kinds of dearness, and two kinds of cheapness.

There is a *dearness* of an injurious kind, that which proceeds from a diminution of supply, for that implies *scarcity*, *privation* (such as has been felt this year\* from the scarcity of corn); and there is a *dearness* of a beneficial kind, that which results from an increase of demand, for the latter presupposes the development of general wealth.

In the same way, there is a *cheapness* which is desirable, that which has its source in abundance; and an

\*Written in 1847.

\* This was written in 1847.—Translator.

injurious *cheapness*, that has for its cause the failure of demand, and the impoverishment of consumers.

Now, be pleased to remark this : that restriction tends to induce, at the same time, both the injurious cause of dearness, and the injurious cause of cheapness—injurious dearness, by diminishing the supply, for this is the avowed object of restriction ; and injurious cheapness, by diminishing also the demand ; seeing that it gives a false direction to labour and capital, and fetters consumers with taxes and trammels.

So that, *as regards price*, these two tendencies neutralize each other ; and this is the reason why the restrictive system, restraining, as it does, demand and supply at one and the same time, does not in the long run realize even that dearness which is its object.

But, *as regards the condition of the population* these causes do not at all neutralize each other ; on the contrary, they concur in making it worse.

The effect of freedom of trade is exactly the opposite. In its general result, it may be that it does not realize the cheapness it promises ; for it has two tendencies, one towards desirable cheapness through the extension of supply, or abundance ; the other towards appreciable dearness by the development of demand, or general wealth. These two tendencies neutralize each other in what concerns *nominal price*, but they concur in what regards the material prosperity of the population.

In short, under the restrictive system, in as far as it is operative, men recede towards a state of things in which both demand and supply are enfeebled. Under a system of freedom, they progress towards a state of things in which both are developed simultaneously, and without necessarily affecting nominal prices. Such prices form no good criterion of wealth. They may remain the same whilst society is falling into a state of the most abject poverty or whilst it is advancing towards a state of the greatest prosperity.

We shall now, in a few words, show the practical application of this doctrine.

A cultivator of the south of France believes himself to be very rich, because he is protected by duties from external competition. He may be as poor as Job ; but he nevertheless imagines that sooner or later he will get rich by protection. In these circumstances, if we ask him the question which was put by the Odier Committee in these words :

“ Do you desire—yes or no—to be subject to foreign competition ? ” His first impulse is to answer “ No,” and the Odier Committee proudly welcome his response.

However, we must go a little deeper into the matter. Unquestionably, foreign competition—nay, competition in general—is always troublesome ; and if one branch of trade alone could get quit of it, that branch of trade would for some time profit largely.

But protection is not an isolated favour ; it is a system. If, to the profit of the agriculturist, protection tends to create a scarcity of corn and of meat, it tends likewise to create, to the profit of other industries, a scarcity of iron, of cloth, of fuel, tools, etc.—a scarcity, in short, of everything.

Now, if a scarcity of corn tends to enhance its price through a diminution of supply, the scarcity of all other commodities for which corn is exchanged tends to reduce the price of corn by a diminution of demand, so that it is not at all certain that ultimately corn will be a penny dearer than it would have been under a system of free trade. There is nothing certain in the whole process but this—that as there is upon the whole less of every commodity in the country, each man will be less plentifully provided with everything he has occasion to buy.

The agriculturist should ask himself whether it would not be more for his interest that a certain quantity of

corn and cattle should be imported from abroad, and that he should at the same time find himself surrounded by a population in easy circumstances, able and willing to consume and pay for all sorts of agricultural produce.

Suppose a department in which the people are clothed in rags, fed upon chestnuts, and lodged in hovels. How can agriculture flourish in such a locality ? What can the soil be made to produce with a well-founded expectation of fair remuneration ? Meat ? The people do not eat it. Milk ? They must content themselves with water. Butter ? It is regarded as a luxury. Wool ? The use of it is dispensed with as much as possible. Does anyone imagine that all the ordinary objects of consumption can thus be put beyond the reach of the masses, without tending to lower prices as much as protection is tending to raise them ?

What has been said of the agriculturist holds equally true of the manufacturer. Our manufacturers of cloth assure us that external competition will lower prices by increasing the supply. Granted ; but will not these prices be again raised by an increased demand ? Is the consumption of cloth a fixed and invariable quantity ? Has every man as much of it as he would wish to have ? And if general wealth is advanced and developed by the abolition of all these taxes and restrictions, will the first use to which this emancipation is turned by the population not be to dress better ?

The question—the constantly-recurring question—then, is not to find out whether protection is favourable to any one special branch of industry, but whether, when everything is weighed, balanced, and taken into account, restriction is, *in its own nature*, more productive than liberty.

Now, no one will venture to maintain this. On the contrary, we are perpetually met with the admission, “ You are right in principle.”

If it be so, if restriction confers no benefit on individual branches of industry without doing a greater amount of injury to general wealth, we are forced to conclude that actual money prices, considered by themselves, only express a relation between each special branch of industry and industry in general, between supply and demand ; and that, on this account, a *remunerative price*, which is the professed object of protection, is rather injured than favoured by the system.

From the *London Star* (leading article) 5th January :—

“ Certain sections of the population—the town shop-keeper, the progressive farmer, the agricultural labourer—have understood because they have felt the pressure of some side of our land system, but the mass of the electorate have not really appreciated the evil because it only affects them indirectly at third or fourth hand. The remark of Mr Henry George in *Progress and Poverty*, that our land laws affect alike men who toil in the mines far below the surface and men who over white surges hang on to reeling masts, should not be overlooked ; it is the key of the situation. It is the complexity of our social system which has hitherto saved landlordism. Men who never see a piece of open land are hard to convince that the land can affect them ; yet it is just such men who are the victims of our haphazard system. Why, to take one example, should all increase in the value of London land, which is due to the muscle, intelligence, and capital of those who have settled on it and by their mere presence made it valuable, go untaxed into the pockets of a handful of golden ground landlords ? This is only one of the questions, and the fact that it affects the Strand as much as it does Poplar and West Ham will not be forgotten.”