LAND & LIBERTY

MONTHLY JOURNAL FOR LAND VALUE TAXATION AND FREE TRADE

Forty-ninth Year—No. 572. **4 Great Smith Street, London, S.W.1.** **January, 1942. 2d.**

THE DISINTEGRATION OF WORLD TRADE—ITS CAUSES AND RESULTS

THE EMPHASIS in the Atlantic Charter upon the need for " access on equal terms to the trade and raw materials of the world " makes it opportune to examine the nature and the results of the trade restrictions which were brought about in the interval between the two wars. A valuable survey of the whole problem is made by Professor J. B. Condliffe in *The Reconstruction of World Trade* (George Allen & Unwin Ltd.), which is in effect a summary of the reports on " Economic Policies in relation to World Peace " prepared for a meeting of the International Studies Conference called to meet at Bergen on 27th August, 1939.

Although written in the most cautious language and with full sympathy for the circumstances which conduced to almost all countries pursuing the policy of restriction, it shows with all the more clarity the far-reaching extent and the devastating effects of that policy.

The methods of trade restriction adopted consisted not merely of tariffs, but of a multitude of subsidiary restrictions, quotas upon production and upon imports, processing duties, international agreements between producers (nominally voluntary, but encouraged by governments), subsidies to exports, to shipping and to other interests, exchange controls, credit manipulation, money and banking regulation, bilateral and discriminatory trade agreements, differential transport charges and port dues, national monopolies controlling the sale of tobacco, wheat, coffee and other commodities. These measures were interwoven with various devices for encouraging particular industries in the home market, so that a whole array of vested interests was created, each of which resisted any relaxation in the whole structure in case that should ultimately weaken its own position.

Tariffs

Not only were tariffs generally increased, so that in many cases they reached two or three times the height ruling in 1914, but the rapidity of increase was such that the whole machinery of production was thrown out of gear. In the years 1927 to 1931 alone there are numerous cases in which the level rose by 100 per cent as compared with 1914. Moreover, not only was the general level raised, but the tariffs became more minute and discriminatory. They conferred great and arbitrary power upon officials. Tariff commissions, such as our Import Duties Advisory Board, were set up, and public control was virtually surrendered to irresponsible bodies who were swayed by the pressure of interested parties. " From time to time in recent years the exploded fallacy of a scientific tariff administered by a non-political administrative body has been resurrected. . . . It should, however, be recognized that such commissions are, and ought to be, administrative devices for executing government policy. They cannot be, and ought not to be, bodies of independent authority, except where limited powers, strictly defined, are granted for a definite term and are subject to review. There is no cost, price, or other criterion on which they can build a ' scientific tariff.' " Indeed it is difficult for any man to be an honest member of such a body, unless he is a convinced protectionist, and all such bodies have, therefore, a protectionist bias.

Quotas

The effect of quotas upon imports, exchange allocations, and other devices for regulating imports is even worse than tariffs. Tariffs may allow a certain volume of trade to pass and that volume may vary with changes in the conditions of supply, while the price mechanism is left to work subject to the tariff. The rationing of imports is an absolute prohibition against all but the permitted quota. " The effect on prices and demand is apt to be very different from the effect of a tariff, more erratic and more arbitrary ; but whatever the effect, no increase in the quantity imported is possible. The destructive consequences to international trade are much greater in this case." The earliest forms of quota, leaving the allocation to importers and exporters, " quickly led to abuses and administrative difficulties. It was not easy to keep track of imports when a quota was opened, so that a sudden rush of imports was apt to exceed the quota. Gluts of commodities followed by long periods of scarcity caused violent price fluctuations and much irritation to national producers, importers, and exporters. It was inevitable that more elaborate methods of organization should be devised, allocating permitted imports over time and among the parties. There is, however, no inherently equitable basis for such allocations." They tend to confer a monopoly upon existing traders and prevent new entrants to the trade. " The possession of a licence to import is a valuable property right that may, in certain circumstances, be sold profitably." Governments have attempted to appropriate such monopoly profits by imposing licence fees, and so the identification of the interests of the state with those of particular monopolists becomes accentuated.

The use of quotas introduces an erratic and uncertain element into the economic system, which conduces to monopoly, price discrimination, and arbitrary pressure by powerful interests. Quotas are regarded as outside the tariff structure, and not subject to the provisions of the most favoured nation clause. They place in the hands of governments an instrument for discriminating, not merely between one country and another, but between one individual and another. " There are many cases where allocations have been granted on conditions that approximate to the establishment of partial monopolies. The profits made in this way have been a powerful inducement to silence. . . Few business enterprises will refuse immediate short-term gains in order to insist upon the maintenance of fundamental principles, even though the abandonment of those principles means, as in this case, destroying the possibility of profitable trading in the long run." The extent of the use of import quotas and restrictions is illustrated by the fact that in 1937 more than half the imports of France and Switzerland were so controlled and more than one quarter of the imports of Belgium and the Netherlands.

Bilateralism

The use of quotas has been an adjunct to the process of bilateral bargaining between nations. Trade treaties have degenerated into special arrangements for the benefit of particular interests. They have been fortified by the use of exchange control and the discriminatory use of credit and banking facilities. Instead of commerce being a matter of individual bargain between the citizens of the various countries, it has become a matter of negotiation between diplomats and government officials who dispose by treaty of the whole export or import of a commodity. The monopoly power thus placed in the hands of the State is used for the purpose of benefiting some particular interest or for effecting some national policy. The operation of the most favoured nation clause has been excluded from many of such bilateral treaties, so that any advantage or any step towards a lower tariff is not shared. In the result it has become almost impossible for those countries, such as the United States, which adhere to the most favoured nation policy to negotiate any trade treaty with a country which adopts this form of bilateralism. A further adverse feature is the complexity of, and the frequent changes in, such agreements, and the difficulty of traders keeping acquainted with the multitude of regulations to which they are subjected. By way of example it may be observed that Jugoslavia alone negotiated no less than 119 commercial treaties in the seven years 1932-38.

Commodity Controls

Apart from official quotas there have grown up international commodity control schemes framed by producers. Tin is an outstanding example. It is evident that, apart from governmental support, such controls depend upon ownership of the land from which the material is produced being in a few hands. The attitude of governments to such combinations has undergone a profound change. Instead of discouraging monopolies they acquiesce in or actively assist them. Thus the conflict of interest between the "have" and "have-not" countries becomes accentuated. "For countries which lack important raw materials in their own territories, but are large consumers of those raw materials, some of which are of great strategic importance, international control schemes appear as monopolistic controls in the hands of countries more fortunately placed than themselves. The price of essential commodities is regulated in the interest of those who own the territories in which they are produced."

Monopoly Based on Land Ownership

It is noticeable that many industrial concerns have buttressed their position by securing ownership of land supplying the raw materials they need. "The modern manufacturing enterprise tends to spread its roots like a great tree. Thus Henry Ford has dredged the River Rouge to make a port at Dearborn connected with the Great Lakes so that his own ships may bring ore from his mines on the Canadian shores of Lake Superior to the very door of his furnaces, while rail transport brings coal, timber, and other materials from his own sources of supply in other areas. Great American manufacturers of rubber tyres have established rubber plantations in Liberia and Brazil. Standard Oil, already established in many widely separated areas, has recently bought a large concession of oil-bearing strata in Saudi Arabia. A diagrammatic representation of the interests of Unilever Limited is like a maze, with its branch factories and plantations in many tropical countries. This process has gone so far that South African interests working from London operate gold mines in West Africa, and Australian base metal interests work through London in Burma, Siam, and Malaya."

The surest foundation of monopoly is to own the land from which the raw material comes. The next best method is to obtain a quota allocation. Still better if the two can be combined. Another method is to obtain a government subsidy, which will enable the favoured interest to undercut its competitors, or differential transport charges on state railways, or the allocation of government contracts. All these things are done on the plea of encouraging home industry and furnishing employment. The Government appears, not in the role of a corrupt and venal patron, but as performing a patriotic and meritorious action. Thus collaboration between privileged interests and the state officials becomes a recognized and approved practice. The interests provide the advice upon which the government shall act, and the urge and incentive to action. The public interest (or the consumers' interest) is diffused and unorganized; in its nature it can never be anything else because it ramifies into a thousand or a million obscure channels; it is, therefore, unable to protect itself and the monopolists carry all before them.

Governments Save Dead Capital

Effective monopoly requires large scale undertakings or combinations. "The invention of limited liability and the subsequent development of absentee ownership led to processes of flotation, combination, and amalgamation which have produced giant businesses. Financial rigidities developed in this way have led to greater inflexibility of prices and have been buttressed by trade understandings, monopolies, cartel agreements, and other devices, sometimes depending solely upon the economic power of the industries concerned, but at times receiving legislative sanction in the laws prohibiting price cutting of proprietary articles." These tendencies were not so serious before world trade became fragmented into territorial fractions. "As long as a reasonable degree of freedom was maintained in international trade, import competition provided an effective check upon cartelization and monopoly, at least in commodities capable of being produced in many areas. Moreover, legislative and, even more, administrative, support, including tariff protection, for vested interests was less easy to secure before the inflated financial structures that were a legacy of the war boom were faced with the violent fluctuations of prices in the interwar period." Here, again, the changed attitude of the State is noteworthy. It is now considered reasonable and proper that the State should intervene in order to preserve capital values, or indeed to restore them when they have already been lost. "The commodity control schemes, while in most cases involving restriction of production by the allocation of export quotas to producing areas, are intended primarily to maintain prices at levels that will preserve the financial structure of the raw material producing enterprises." The crop restriction policies of the New Deal, and the quotas and tariffs in favour of agriculture in this country are illustrations of the same tendency. The depression in agriculture should have been mitigated by a reduction of rent, and the method of restriction was introduced to prevent this and to keep land values up.

Currency Control

The control of the state over foreign trade and exchange has been partly effected by means of currency control. The least objectionable form of this is the use of exchange equalization funds which after all are "only an extension and rationalization of classical central banking practice." In the long run "exchange equalization funds offer an improved method of smoothing out temporary fluctuations in the exchange rates, but are powerless to remedy long continued drains of funds (or inward movements of gold and foreign assets) resulting from disequilibria in the balance of payments." "Attempts to peg the rate of exchange at a level above that warranted by the state of the market have invariably been accompanied by the appearance of a black market in which the pegged currency sells at a discount." (A similar result happens when attempts are made to peg commodity prices below the market level.) The authorities are then led to further intervention and finally to a complete monopoly under which all foreign currencies have to be handed over to the monetary authorities and under which no one can obtain foreign currency except from them. This results in fresh access of power to officials who have to distinguish between applications for currency according as they are "legitimate" or not. "The fact is that exchange control becomes necessary only when the controlling country is unable to meet its commitments abroad—when it is in a state of external insolvency." This condition is largely the result of the tariffs, quotas and other restrictions which have already interfered with the normal functioning of trade, and the remedy increases the disability and restricts trade still further. "Exchange control is essentially similar to a receivership. Its basic cause is external insolvency; its methods of procedure must be the mobilization of assets and the arrangement of prior claims to those assets."

Banking and Monetary Policy

Exchange control is intimately linked with central banking and monetary policy. Its use fits in with the ideas of those, and they are very many, who advocate "the manipulation of monetary policy as an effective means of economic reorganization and social reform." Conversely "monetary policies designed to cheapen credit so as to encourage economic expansion in the national market directly affect the balances of international payments. Imports are encouraged and exports made more difficult while at the same time short term funds are drained from the country. If these developments are continued for any length of time, the strain on the balance of payments will force either exchange depreciation or exchange control." Thus the vicious circle is complete. The policies of monetary manipulation which are supposed to hasten economic recovery interfere with international trade upon which the prosperity of every country becomes more and more dependent in a world-wide system of division of labour. Moreover, currency depreciation undermines confidence and causes "a serious loss of faith in the wisdom of saving for the future," and so interferes with the provision of capital necessary for expanding production and a rising standard of living.

The Corporative State

Regulated trade tends to fall into the hands of big business and of privileged groups. It paves the way to the establishment of the corporative state, which "is essentially an attempt to organize society along occupational lines. It governs through organizations of producers. Associations of general welfare are relegated to a subordinate role. Individual citizenship and the interest of the ordinary consumer are disregarded. The state emerges as the supreme reality without which individual activities and interests are meaningless. Productive organization is dominated by state necessities, and these necessities are inevitably conceived in terms of military power. This is the logical end of organization that disregards individual satisfactions."

The ultimate result, if not the avowed purpose, of all such policies is to satisfy the selfish interests or the lust for power of a few and not to serve the economic needs of the many.

Freedom of Trade

On the other hand " it can be proved that, at any rate under the usual assumptions of general economic theory (free competition, absence of friction, and so on), the unrestricted international exchange of goods increases the real incomes of *all* the participating countries." (Haberler, *Theory of International Trade.*) " This theoretical demonstration, it may be added, takes account not only of the aggregate real income of each country participating in international trade, but of the distribution of that income between regions, among classes and occupations, among individuals, and over periods of time, as well as its stability and security."

Freedom of trade conduces to a greater production of wealth, whereas restriction curtails production. Regulation discourages production which should be undertaken and encourages that which should not. " Production was fostered in high-cost areas and discouraged where costs were low. French peasants, for instance, were subsidized to grow wheat unprofitably at three times the price ruling in the United States, where farmers were being subsidized to take their land out of cultivation."

Unable to reply to these arguments the advocates of restrictionism have endeavoured to justify their policy by non-economic arguments, by appeals to patriotism, by prejudice against foreigners, and by claims that only by sacrifice can a high standard of culture be attained. " It must be remembered, however, that a high level of productivity is an essential basis for communal well-being. Artistic and cultural achievement in the past has not been correlated with poverty, but with wealth. The ' good life ' is possible only when the rudimentary necessities of food and shelter are assured."

It is also sought to justify restrictionism on the ground that it is of a piece with a reaction against the evils of *laissez faire*. " *Laissez faire* in international relations as in those between labour and capital," writes Professor Carr in *The Twenty Years Crisis*, " is the paradise of the economically strong. State control, whether in the form of protective legislation or of protective tariffs, is the weapon of self-defence invoked by the economically weak." It would be hard to find more fallacies concealed in a single sentence. First there is the introduction of the phrase " *laissez faire*," which is out of favour to-day and the insinuation that those who advocated this policy did not believe in international law and order but considered that the strongest nation should do what it pleased. Then there is the double use of the word " protection," implying that a protective tariff does in fact protect the weak, whereas it is easily demonstrated that it helps, as a rule, the strong.

Results of Restriction

The disintegration of economic relations in recent years has been caused not by *laissez faire* (whatever meaning may be attached to that word), but to " the growing interference of national governments with the organization of economic activity." The causes of the breakdown were " restrictions on the movement of men, merchandise and capital." Political self-determination resulted in the creation after the last war of a series of states which gave expression to racial and cultural feelings of unity, but they were even less economic units than the states out of which they had been carved. The piling of restriction upon restriction made the economic condition of every country steadily worse. Yet world economic activity, like world peace, is in fact indivisible. The effect of restrictionism was cumulative. The collapse was the " product of selfish interests and muddled nationalism," and so was created a period of frustration in which " extremists are able to seize and retain power."

As Professor Staley says (in his *World Economy in Transition*) : " A policy that restrains modern man from using the knowledge he has acquired, that restrains him from using resources in ways that have become essential to his present modes of existence in some parts of the world, builds up pressures for an explosion. Economic walls at national boundaries, far from preventing conflicts, themselves create a grimly materialistic basis for future wars. One of the first principles for those interested in economic progress and political peace must be : *Lessen the economic significance of national boundaries*."

It is significant that when trade began to increase after the great depression " the increase was confined largely to the countries which had not indulged in the new quantitative restrictions to any great degree." Sweden is frequently cited as a country which combated the depression by a wise monetary policy, but attention does not appear to have been drawn to the fact that Sweden was perhaps the only country in Europe whose tariff was actually lower than in 1914.

The world is not suffering from too much freedom, but from too much constraint, leading to scarcity, monopoly, high rents or profits for monopolists, diminished production, less employment, and lower wages. The remedy is not to be found in more constraint, but in abolishing the restrictions from which we now suffer. But it is not sufficient merely to free international trade from its trammels, it is necessary to remove the obstacles to production in the home market. It is only in that way that the full advantages of specialization and division of labour can be secured, production raised to its highest point, monopoly profits abolished, and wages increased. If abstract arguments alone are insufficient to move men to action on these lines, surely the bitter experience of the last quarter of a century should be decisive.

CUSTOMS DUTIES REMOVED FROM WAR PRODUCTION

THE CANADIAN and United States Governments announced last month that they had agreed to suspend tariffs and other trade restrictions affecting their joint war production. This is a step in the right direction and in accordance with the spirit of the Atlantic Charter. A similar agreement should be made between this country and the United States.

Commenting on this announcement, Mr Norman Crump, City Editor of the *Sunday Times* (28th December) said :

" I do not know if the Government levies customs duties on its own war purchases, whether made for cash or under the Lend-Lease scheme. What is obvious is that there seems little sense in the maintenance of an elaborate customs organization at the ports, if it means that the Government is paying customs duties to itself. It is much better to get the goods quickly away from the ports, and to avoid any delay due to customs formalities. This applies to all direct Government purchases, and also to raw material imports consigned to factories working for and being paid by the Government. It applies to all Lend-Lease imports, and also to those of subsidised foods."

After referring to the possibility of creating a currency union as well as a customs union, Mr Crump added :

" It may be argued that after the war it would be difficult to disentangle all the ramifications of an Allied customs and currency union. But does that matter? Close co-operation between us all will be just as necessary in peace as in war, and the more mixed up together we all get, the better.

In particular everyone realizes that if the world is to recover quickly from the war, international trade and exchange must be as free as possible. . . . if the Allies emerge from the war with the rudiments of a customs and currency union, they will have laid a firm foundation for post-war co-operation and reconstruction in the occupied and war-stricken countries as well as elsewhere. I am not afraid of the post-war consequences of these two ideas. On the contrary, they provide an additional argument in their favour."

It would seem that the terrific injury inflicted upon production and trade throughout the world by the enormous growth of tariffs and trade restrictions since the last war is now being understood. But it will require determined effort to make certain that the selfish interests of minorities do not drag us back upon the same ruinous course.

A vivid account of the Mosaic Legislation concerning Economics can be found in *My Neighbour's Landmark*, by Verinder, lately republished by the Henry George Foundation.—William Temple, Archbishop of York, in *The Hope of a New World*, p. 59, published by the Student Christian Movement.

My Neighbour's Landmark, short studies in Bible land laws, by Fredk. Verinder. Fourth edition. Henry George Foundation, 1*s.*, from our Offices, 1*s.* 3*d.* by post.