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PROFESSORIAL PROFUNDITY

Professor J. R. Hicks, a Fellow of Nuffield College and a former Stanley Jevons Professor of Political Economy at the Manchester University, addressed the Statistical Society in that city on March 14. His theme was the attitude of modern economists on Free Trade. The *Manchester Guardian,* in its report, gave him credit as "one of the most eminent of our theoretical economists"; and Mr. Oscar Hobson, City Editor of the *News Chronicle,* naming him "an economist of high attainments," gave much space to his address.

Professor Hicks, saying that the "positive" argument for Free Trade remains as valid as ever, indulged in a number of negations alleging its weaknesses and defects. In the minds of those modern economists for whom he speaks much confusion exists. The audience had to wrestle with a procession of conflicting thoughts, like the following, which the reputed authorities themselves seem unable to resolve.

The positive argument for Free Trade rests, it was said, on the advantages of specialisation in production but it was subject to exceptions that are all in danger of being given too much weight. Here the Free Trade argument is defended against some unspecified attack.

Modern economists, we are told, consider the case for Free Trade critically in relation to (1) what is called the "employment—balance of payments" argument, and (2) the "terms of trade" argument. This is all very involved, but we cannot help it. Apparently it is only where argument No. 1 applies that any respectable case for protectionist tariffs can be established. The vote is here given for protectionism as a remedy for unemployment, yet only in so far as unemployment is the outcome of things that are amiss in the balance of payments between one country and another. At least that is how we try to grasp the thought that is expressed, and the inference is that if unemployment arises from other causes, then protective tariffs are no cure for it. As for argument No. 2 mentioned above, it appears that the case for Free Trade still holds good no matter what may be the shape of the so-called "terms of trade."

Next comes the approval of protectionism under other assumed conditions.

It is said that where there is mass unemployment in one country but full employment in the others, a tariff would help to ameliorate unemployment without necessarily leading to trouble in other countries. The Professor has forgotten what he said earlier about "the only respectable case for protectionism"; he adds other cases, but neither the first nor any one that follows is more than an undefended assertion.

A contrasting condition from that stated above is where there is large-scale unemployment in all or most countries. In that state of affairs, we learn that restriction of imports would also be a remedy for the country adopting it, but at the cost of "pushing unemployment abroad." If we pursue that argument, we must conclude that if all countries resorted to this alleged remedy at one and the same time, all would be rendered idle. Here is repeated the old contention that one country can only gain at another's expense, and the Professor admits that gains may be had in that way. What a blessing if we were the only protectionist country in the world! We could richly exploit all the others by flinging our exports at them; we, with imports kept out, in full work; they, with imports dumped upon them, in perilous unemployment. Was that what Stanley Jevons taught in his day? But then he was not a *modern* economist.

Again it is said, by the modern economist, that where there is large-scale unemployment in all or most countries, the proper remedy is to increase purchasing power, by Government spending, reduced taxation (how can these go together?) or monetary measures. Our reply is that inflation is the only way Governments can "increase purchasing power," although in an illusory manner. It is nothing but a fraudalent device which, by raising prices, decreases purchasing power and increases taxation. But to proceed, protection is given further support although the compliment is a bit left-handed. It is said that simple protection is not a solution but it may come as a more recommendable solution in another way (*i.e.*, with less than simplicity?). "It may come in because a country is in 'balance-of-payments' difficulties which mere expansion of credit would be liable to aggravate." By this time we can see the audience looking with amusement at the speaker's efforts to extricate himself from the net of his own making. Increased purchasing power as a "proper remedy," and expansion of credit aggravating the difficulties, were tied together in a bonny knot.

The messy contradictions flowed on through the lecture. During the full-employment years it was said, the lesson of how to increase employment by expansionary measures was learned. (It must have been a sorry lesson, because, as stated, the problem of how to maintain order and efficiency in international trade remained unsolved.) "International full employment had led to a succession of balance-of-payment crises at home and abroad; as long as the contraction of internal purchasing power was ruled out as a method of dealing with such crises, only expedients remained." The nature of these expedients is not stated in the reports in front of us.

At one moment we see protectionist tariffs and expansion of currency mooted as remedies for unemployment, with reduction of wages as an alternative if that were politically possible. At another moment, we see full employment becoming so universal that crises are provoked in the international balance-of-payments (whatever that may connote) and a contraction of internal purchasing power must therefore take place. We suppose that the Planned Economy must decide these moments. But we ask whether this professorial monkeying with the money standard (its disastrous economic effects entirely ignored) is advice meant for this country alone in order to make sterling more valuable in terms of other currencies; or

is it meant for adoption by all countries as a means of raising the external purchasing power of their currencies? We are not made aware. Obviously if this alleged cure for the said crises in the so-called balance-of-payments is applied all round and in equal measure—or between two countries in their reciprocal trade—the balance of debts and credits will remain precisely as it was. Obviously also, if one country indulges in this deflation and not others or not in the same measure, the flow of imports into that country will be stimulated and exports will fall off; that is, for the time being, until market rates of exchange catch up on the altered purchasing power of the currency concerned. Inflation produces the opposite results, but we need not labour those aspects of the matter. We see Prof. Hicks on the horns of dilemma. Believing in the notion that imports can be a cause of unemployment, he must look with disquiet on the outcome of the trick he would perform, the money manipulation, to cure the disease he discovers in another part of the body politic. The old eruption breaks out in the unemployment which (according to the upheld protectionist doctrine) the increased imports induce. The doctor is at his wits end where next to place his plasters; he only talks about "other expedients" that might be applied, subject to plenty of "ifs" and "buts."

Is it that the Professor and his confrères cannot make up their minds on the economic principles they affect to expound or (we dare ask) are they intellectually incapable of doing so? They befuddle their minds and clutter the subject with ponderous phrases like "the terms of trade" and "the balance-of-payments" which have wormed their way into the economic glossary of those who think that trade takes place between nations and not between individuals. The leading idea, set in that mould, is that the State "makes money" if it can successfully negotiate low prices for its imports and high prices for its exports—then "the terms of trade" will be favourable and "the balance-of-payments" will be on the right side. Playing with that idea, the Professor is impatient with those who advocate restrictive practices or tax levies based on what he calls "the terms of trade motive"; that is, by forcing the foreigner to lower his prices under threat of excluding his goods from the British market, or compelling the foreigner to pay more for British exports by adding an export tax to the prices of them. It would in his view be dangerous to exploit other nations in that way—as if the British people by these restrictions and penalties on trade would not suffer more! The Professor is not against devices for "turning the terms of trade" in a country's favour; on the contrary he approves of them; his only objection is the "tax the foreigner" mentality. What does he propose when the so-called "terms of trade" are unfavourable? He has his own specific. The "terms of trade" are to be rendered favourable "by preventing disequilibrium in the balance-of-payments." A high-sounding phrase but indeed a difference without a distinction. One way and another, the Professor produced from his portfolio restrictions and controls and manipulations of all sorts, for ready use on the most extravagant pretexts.

There was a summary statement which should not escape notice: "It seemed as if international approval of export subsidies, in appropriate conditions, might be the only way of retaining some of the benefits of Free Trade; an exactly parallel provision should then be made for the case of export taxes." It is difficult to discover either sense or intention in so much hesitancy and qualification. Here, approval is given to subsidies provided that in somebody's estimation the conditions are appropriate. It appears not to matter what kind of taxation is to be imposed to provide the subsidies; neither is it clear how you can simultaneously subsidise and tax your exports, to the benefit of yourself or the foreigner; and we are left wondering how this complicated juggling is to preserve "some of" the benefits of Free Trade.

We have laboured at this analysis for our own benefit and that of our readers, to see where one stands *vis-a-vis* the kind of teaching that now emanates from the Universities. The *Manchester Guardian* and Mr. Oscar Hobson (of all people) might well revise their estimation of those whom they set up as guiding lights.

A. W. M.

TWO SITES IN SAN FRANCISCO

The following examples in San Francisco, reveal the record of two sites. Facts speak louder than words.

The first example is that of a certain lot acquired in 1847 by Mr. Russ, for $37.50. It was held idle and unimproved by Mr. Russ for many years, while others built on and otherwise improved the adjacent sites. Then Mr. Russ put up an inexpensive building, which would bring in enough income to meet the nominal land value tax that San Francisco was required by law to levy and collect annually.

The location of this site made it appropriate for a fine building. But before the people who were willing to put up the money the present splendid building would cost could build it, they had to contract to pay the Russ Estate a ground rent of $10,000 per month, and assume the obligation to pay all future taxes on the site and building, and also make a gift of the $8,000,000 building to the Russ Estate at the end of 99 years. This $10,000 a month was collected by the Russ Estate for about 30 years, when the heirs to the Estate decided in 1950 they would be willing to sell their title deed to the bare land. The building owners offered them $3,000,000 for the title deed, which had cost Mr. Russ $37.50 in 1847. According to the newspapers the Russ heirs were bought off in 1950 for $3,000,000 on top of the $10,000 a month ground rent they had collected for so many years.

The second example is the site on which the Lincoln grammar school stood, until the 1906 fire and earthquake that destroyed the building. San Francisco had a Mayor who had met Henry George and heard him speak about how a city *should* raise its necessary revenue. The School Board decided not to build a new school on this site, and wanted the city to sell it. But the Mayor asked, why sell the site, why not get rent from it to help support our public schools? A tenant was quickly found, who agreed to pay $3,750 a month ground rent for the first 3 years, and $7,500 a month for the next 32 years. This lease expired in 1943, when the city offered this site for sale *or lease*, and invited public competitive bidding. Three bids were made, but all bidders chose to *lease*, none offered to buy. The top bidder is now paying San Francisco a ground rent of $29,900 each month, which helps support our free public schools, and it is reported that the lessee is getting about