

letter from the editor

President Trump's new tariff policy raises fundamental questions about world trade. It flies in the face of the free trade model which presupposes that international exchange of goods and services are mutually beneficial, guided by Adam Smith's invisible hand. Smith regarded the trade between nations as functioning in the same manner as trade between individuals or local communities. Different nations are simply different sites of production with their own particular advantages. Exchange between them brings benefits that each does not have by itself.

Adam Smith saw the world as a single community, and world trade as the full expression of economic development. But this rather utopian abstract view overlooks the nature of human communities. The trade between two nations is not the same as the trade between individuals in their local communities. Nor is trade between different communities within a nation the same as between individuals. An individual, a town, a city, a county, a nation are different kinds of economic entities. Exchange between them involves different protocols and customs and different moral obligations.

Within a nation acknowledged customs and rules are followed, reinforced by the rule of law. Wholly different customs and rules are needed for exchange between nations. There is no higher authority to impose such customs and rules. They must be decided through negotiated agreements. The relations between nations has traditionally been made through treaties, or in the age of empires, simply through force. The medium for mutual agreements has been through the particular skills of diplomacy, where diplomats understand the laws, culture and traditions of nations. Here very different moral protocols are at play, and any utopian universal ideology has to be wholly set aside. Honouring national and historical cultural differences is what makes diplomacy effective.

In the light of these differences between communities and cultures and nations, what is it that is going wrong in present world trade which the Trump administration is seeking to address? It is in fact a problem that has a long history behind it: that trade between nations seeks to take advantage over the trading partners. In particular the stronger nations seek to exploit the weaker nations. At present this is most obvious in the attempts of nations to gain monopoly over new technologies or over rare material resources. Each nation seeks first its own advantage, and trade is not seen merely as mutual exchange but as competition.

This competition may be the expression of a more natural law. Communities naturally act to preserve themselves. The family, the town, the city, the nation each by nature seek to preserve their own unity and integrity. World trade can directly interfere with the integrity of each of these. We have a good example in the UK government seeking to preserve the steel industry as a national asset. To be deprived of the power of production of certain essential commodities through a foreign power creates a harmful dependency. Each community ought to be self-sufficient as far as possible. This is the basis of individual freedom and that of every community. Each community, by its very nature, ought to be self-governing.

This is a principle recognised by Aristotle and the ancient philosophers. The individual and each community relate to society in specific ways. For the individual the most obvious relation is that of working with their particular talents or vocation. For the farmer this involves working with the specific characteristics of his land and the market at hand. This principle extends all the way to making a nation self-sufficient in food. Importing necessary foods indicates either a deficiency in farming the land or a monopoly. Luxuries may be an exception. But it is well known that the appropriate food for a people is that which comes from the land they dwell upon. The importation of food may also involve exploitation in the country of origin. Exporting food may itself harm the exporting nation, as was the case in Ireland during the famine in 1845-52.

Trading between nations raises a host of moral questions, especially about exploitation, forms of monopoly and environmental abuses, which local trading does not raise. World trade makes such questions invisible where locally they would be obvious. The smaller the scale of exchange, the better the free market works. But as the scale increases, so more regulation is required. Within a nation this happens naturally. For example, pharmaceuticals require large scale production and call for very specific market regulations. Here government has a necessary function in guarding the health of a nation. Such responsibility cannot be left to the market to regulate itself. Trade and community are inextricably bound together, and so the exchange of goods cannot be rightly conceived without accounting for the community from which it arises and serves. The tendency in neoclassical economic theory is to overlook communities and their distinctions in scale and integrity. The exchange of goods and services is human exchange, and the manner in which it is carried out either fosters community or harms it.

The Trump administration may not have considered these implications with its dramatic imposition of tariffs. Nevertheless they are all at stake. There is in fact an exploitative element in present world trade. But as Michael Hudson has pointed out, the effect of USA tariffs will shift the burden of taxation onto production and wages while the government reduces taxes on financial markets and all forms of rentiering. It will not facilitate more local industry as is claimed.

It has long been a convention that each nation should seek to export more than it imports, while in reality that is completely impossible. But it shows that the way trade between nations needs to be understood is different than that between individuals or small self-sufficient communities. And at the root of these different relations lie different relations with the land.



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