THE PREMISES OF FREE TRADE EXAMINED

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BY

GEORGE BASIL DIXWELL.

FROM THE BULLETIN OF THE NATIONAL ASSOCIATION OF WOOL MANUFACTURERS.

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THE PREMISES OF FREE TRADE EXAMINED.

As the text-books from which political economy is taught in most of our colleges are generally by English authors, or by Americans who have adopted the English views, it is not surprising that we should meet with a great many highly educated men who believe the trans-Atlantic ideas to be invulnerable. They have been taught that economical phenomena are too complex to be investigated by the *a posteriori* method, and that nothing can be relied on but reasoning from assumptions; and they have accepted with delight certain most attractive argumentations, in which the wasteful futility of protection appears to be demonstrated, just as the mathematician demonstrates that the three angles of a triangle are in all cases equal to two right angles. But deductive reasoning has its own liability to error. Very eminent authors may change the *subject* or change the *premises* or reason from an apparent *axiom*, which upon careful examination is found little better than a blunder, or an identical proposition. The writer believes that all these logical faults are to be found in the supposed demonstrations above alluded to; and he proposes in this paper to point out a few of them, in the hope that some able minds may be led to review their conclusions, and to read or read again, with a candid spirit, what has been urged by Rae, Phillips, Carey, List, Bowen, Seaman, Thompson, Greeley, E. P. Smith, Kelly, Elder, and many others who have written in favor of protection.

Let us first examine Mr. J. R. McCulloch's apparent demonstration that absenteeism is not financially injurious to a country. He argued in this way: —

1st. "We get nothing from abroad except as an equivalent for something else; and the individual who uses only Polish wheat, Saxon cloth, and French silks and wine, gives, by occasioning the exportation of an equal amount of British produce, precisely the same encouragement to industry here as he would give were he to consume nothing not directly produced among us. The Portuguese do not send us a single bottle of port, without our sending to them, or to those to whom they are indebted, its worth in cottons, hardware, or some sort of produce; so that whether we use the wine or its equivalent is, except as a matter of taste, of no importance whatever."

But if it be indifferent whether an Irish landlord residing in Dublin consumes an Irish or a foreign product, it is evidently indifferent whether he consumes the one or the other in Dublin or in Paris. Therefore, absenteeism, as far as its financial effects are considered, is a matter of entire indifference to the Irish people.

If the premises be correct, the conclusion appears to be inevitable; but in this, as in other cases, where the result of reasoning contradicts the almost universal opinion of mankind, it is well to look again very closely at the premises. Let us do this, and, in order not to perplex ourselves by interposing money, let us suppose that the annual produce of the land of Ireland is equivalent to 30,000,000 bushels of wheat, and that the landlord's portion for rent is ten per cent, or 3,000,000 bushels of wheat. If this ten per cent of the rude product of the land be sent off in the form in which it is raised, it is evident that it might as well be burned, as far as the people of Ireland are concerned. The people will have raw products to consume equivalent to 27,000,000 bushels of wheat. This we will call case first.

Now, alter the supposition, and let the 3,000,000 bushels of wheat be exchanged for Irish manufactured products, and these last be exported. Then, clearly, the people of Ireland will have available for consumption one-ninth part more of the products of the land than they had under the first supposition. This is case second.

Now, vary the supposition yet again. Bring home the landlords, and confine them and their dependents to the use of Irish manufactures. The people of Ireland will then have for consumption the same quantity of wheat as in the last case, and *also* the manufactured products which are exported under case second. This we will call case third.

In the first case, the raw produce constituting rent is sent abroad. It might as well have been burned. In the second case, it is given to productive laborers, who give in exchange manufactured products, which are exported. Here the Irish people get 3,000,000 bushels of wheat to consume in addition to what they had under case first. In the third case, the Irish people, altogether, have for consumption the additional 3,000,000 bushels of wheat (the same as in case second), and *also* an equal value of other products, subject only to a deduction of what the landlords and their wives and children actually use themselves; and, if we go through the expenditures of a wealthy family, we shall find this deduction to be very trivial. A very large part of their incomes are exchanged for professional and personal and commercial services. Those who render such services constitute, according to the census of the United States, more than one hundred and thirty distinct classes, and are over one-fourth part of the whole working population.

Mr. McCulloch saw very clearly that the landlords living in Paris would only obtain services and commodities by exchanging for them their rents or other Irish products into which their rents were converted: what he appears to have overlooked is that the landlords, when living in Dublin, would obtain *Irish* commodities and services only in exchange for their rents or other Irish products into which those rents were converted. The producer of Dublin stout will not give a single bottle of it, except in exchange for other commodities, any more than will the Portuguese producer of port. It would appear, then, that the premises of Mr. McCulloch were quite inaccurate, and that the conclusion drawn from them must be abandoned. Mr. J. S. Mill, in his "Logic," in book v. chapter iv., end of paragraph 4, has a similar error. He says it is indifferent whether an Englishman buys British or French silks, because British commodities must be produced and exported to pay for the French silks. He forgets that the necessaries, conveniences, &c., of the British weavers are as much British commodities and employ as much industry to produce them as do the commodities which pay for the French silks in the other case. The only difference is, that in one case the British weavers are deprived of their support, and in the other case they are not. Everything else remains the same, except that the consumer may get the French silks a trifle cheaper, — a matter altogether too trivial to be compared with the national loss.

Professor Cairnes, in his book entitled "Some Leading Principles of Political Economy," repeats this mistake, and props it up with the remark that if it be an error, "we seem to have made a mistake in repealing our protective laws; nor were protectionists, after all, so very wrong in seeking to encourage native industry by compelling expenditure towards domestic productions!" See part ii. chap. i., note at the end.

Mr. Mill makes use of the error to prop up the free-trade doctrine, and Professor Cairnes makes use of the free-trade doctrine to prop up the error.

Let us now examine another specimen of reasoning: the doctrine that a universal glut of all commodities is impossible, — not a permanent glut, but *any* glut. This doctrine makes a business man open his eyes wide with astonishment. They get at it in this way: —

1st. "Human desires are unlimited.

2d. "Commodities are paid for by commodities.

3d. "He who has produced a commodity has therefore the means of purchasing the other commodity he desires. Double the number of products, and everybody would bring a double demand as well as supply. It is a sheer absurdity that all things should fall in value, and that all producers should, in consequence, be insufficiently remunerated."

Thus says Mr. John Stuart Mill; and Professor J. E. Cairnes, in his work entitled "Some Leading Principles of Political Economy," before alluded to, maintains that with regard to commodities, demand and supply, as general phenomena, as aggregates, cannot be discriminated. He says:

"An article is produced and is offered in the market: it is now supply; but the possession of the article confers upon the owner a purchasing power, and this power being exercised, the article becomes a source of demand; *nor is there any other source from which demand can spring.* Demand as an aggregate cannot increase without supply, nor supply without demand. This," he says, "is fundamental in the theory of exchange; and all assumptions to the contrary must be regarded as baseless and absurd."

Now, every business man knows that the aggregate demand for commodities is sometimes greater and sometimes less; so much so, that the quantities in stock are sometimes greatly reduced and sometimes greatly increased, — even to the extent that is called a glut. What, then, has perplexed the abstract reasoners? The doctrine of value appears to be the culprit. The value of anything, they say, is what it will exchange for in other things; it is a ratio; and so, of course, it is absurd to say that all values can rise or all fall together. Hence Mr. Mill and Professor Cairnes maintain that the supply of commodities cannot outrun the demand. But it is just here, in applying to commodities the arguments applicable to values, that the reasoning breaks down, and is found to consist in changing the subject. That all values cannot rise or fall together may be perfectly true; but it does not follow that all commodities — the total annual product — may not rise or fall in exchangeable value; because the totality of commodities does not constitute the totality of values. Besides commodities, there are the rights to incomes, and the totality of fixed capital, the possession of which gives incomes. The annual product in the United States being taken at 6,000,000,000, those other values are estimated at 30,000,000,000; and, in fixing their minds upon commodities alone, the eminent authors in question overlooked five-sixths of the values which the money power has constantly to measure. Let no one suppose that Messrs. Mill and Cairnes intended to include all these under the term "commodities." They meant to include nothing beyond the annual product, as would be abundantly evident if there were space to copy their arguments *in extenso.* They argued the case as if there existed nothing besides commodities, and as if men had no desires for anything else, — overlooking that most pervasive and persistent instinct of man to increase his income or better his condition, of which Adam Smith remarks, "that it comes with man when he issues from the womb, and continues with him until he enters the grave."

Now, the action of this instinct sometimes causes an increased demand for commodities, and sometimes a great diminution and a glut. When many possessors of property yielding an income arrive at the conclusion that the country has outgrown its fixed capital, — that it needs more houses, farms, mills, forges, &c., — they can descend into the market, sell or pledge a portion of their bonds, shares, or other property, and proceed to the construction of new railroads, houses, cities, mills, forges, &c.; and this movement will involve the fuller employment of the community, a consequent diminution in the stocks of commodities, and an advance in their exchangeable value. It seems to be of the nature of such movements to run to excess, as each onward step causes a larger and larger demand and stimulates more and more to an increased production by making the earlier enterprises profitable; but, finally, just as the most prudent give up looking for a crash, it comes. It suddenly reveals itself to the community that more fixed capital has been formed than can for the time being be profitably used. Then comes a violent reflux of opinion. Men rush into the belief that more has been done in that direction than the country will require for twenty years. Every new enterprise falls into discredit; the population which was engaged in converting floating into fixed capital, — that is, engaged in converting a portion of the annual product into instruments designed to increase the future product, — this portion of the population is dismissed into idleness, and is thereby forced to diminish enormously its demand for commodities; and here we find ourselves face to face with a *glut*. The productive energies, which had adapted themselves to meet the effective demand of a fully employed community, find themselves in excess in presence of the diminished demand of a community only par-