

# Free Trade, Freedom of Enterprise and All That



Donald B. Billings and  
Ellis W. Lamborn

THE CURRENT LOW PRICE for the world's "surplus" sugar has in recent weeks brought to center stage a conflict which is always lurking just beneath the surface of conversation, namely the extent to which Americans really do or do not believe in the "free market philosophy." Our attempted defense of free trade and the free enterprise system has elicited heated criticism from a community nominally devoted to the "free market" order. The chairman of a major sugar company is disappointed in our decision "to champion a 'free market' philosophy, as is popular in academic circles." The president of an association of beet growers suggests that he is "a firm believer in the free market and free trade [but] free

trade in sugar is a horse of a different color." It would seem that the commitment to a free market system of economic institutions is only for the other guy. Our own horse is always of a different color.

Fortunately the appeal and defense of free markets in which new producers, foreign and domestic, are free to enter and compete does not exist "only in texts." The drafters of our Constitution saw the great wisdom of prohibiting restrictions on the flow of goods and services across state lines by explicitly providing in Article 1, Section 10, that "No State shall, without the Consent of Congress, lay any Imposts or Duties on Imports or Exports, except what may be absolutely necessary for executing its inspection Laws." The European Economic Community (Common Market) has copied this phenomenally successful U.S. experiment in free

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Professors Billings and Lamborn are in the Department of Economics at Boise State University in Idaho where they have been taking a stand in favor of free trade.

trade in the Treaty of Rome, creating a customs union in which goods and services flow freely across national boundaries. These experiments in economic unification for the purpose of increasing the extent of the market and the degree of economic specialization have been extraordinarily successful in raising wages, salaries and incomes.

### Market Stability

Those who argue that a particular industry should be subsidized and protected from foreign competition in order to provide for "orderly" and "stable" markets would, presumably, also be in favor of amending the U.S. Constitution so that Idaho might place quotas on the "surplus" automobiles imported from Michigan, the "surplus" oranges from Florida, or the "surplus" farm machinery from Ohio. Likewise, we should be up in arms over the subsidies that the state of Pennsylvania has recently negotiated for the assembly of Volkswagen *Rabbits* in the U.S., on the grounds that the subsidies will provide an unfair advantage for the Pennsylvanians. Shouldn't we be angry that Pennsylvania has seen fit to have their taxpayers subsidize our automobile purchases?

On the other hand, Idaho would presumably not be too appreciative of a decision by California (fortunately precluded by the U.S. Con-

stitution) to place a quota on "surplus" Idaho potatoes. We can't have it both ways. Free trade and economic specialization increases real incomes or it does not! We believe in the "free enterprise" system (with all of its weaknesses and uncertainties for individual economic values which need to be dealt with in an enlightened manner) or we don't.

### Low Foreign Wages

The traditional low-foreign-wages argument once again emerges as an argument for protection. It is argued that one of the reasons for the lower dollar cost of many foreign goods is the high "level of wages paid in the United States, including the domestic sugar industry, compared to those paid in foreign countries." Unfortunately, the argument is unsound. Relatively high wages are a result of high productivity, and relatively low wages are a result of low productivity. If American labor has high wages, it is because American labor has higher man-hour productivity than foreign labor.

If low foreign wages are the source of our troubles, then why is it the case that U.S. wages are highest in the very industries in which we are *most* competitive? Why do we dominate world markets for commercial airframes, computers, construction machinery,

mineral mining machinery, communications equipment, medical instruments, and the like? These are industries with high skill and engineering labor requirements in which wages and salaries dwarf those in the sugar beet growing and processing industries. Comparative advantage and specialization are predicated on economic efficiency and *not* technical or engineering efficiency. Yield per acre is totally irrelevant. What matters are the relative prices and endowments of the different human and nonhuman productive agents used in the production process.

If labor is "cheap" abroad, we should be cultivating its use in those industries which use relatively more unskilled and semiskilled labor, and be making efforts simultaneously to transfer our more productive (i.e., high wage) labor force into those industries in which a productivity advantage, arising from technology, marketing, skill levels, and the like, is demonstrated. The Trade Reform Act of 1974 provides for liberal doses of "adjustment assistance" to ease the movement of labor and capital to the relatively more productive sectors of the American economy.

If the United States can export its environmentally destructive industries to more hospitable (clean) areas of the world which have a greater remaining capacity to ab-

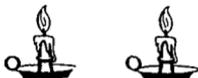
sorb pollutants, then let it be done. To argue that a domestic industry is deserving of protection because it is forced to absorb the full social costs of environmentally destructive productive processes, not only argues for inefficiency but also ignores a fundamental truth. If the rest of the world is willing to give us sugar, rubber products, textiles, beef, automobiles, stereo components at a lower real resource cost than they can be made available from domestic resources, then it is to our advantage—providing we are interested in higher real incomes for the American people—to let them "dump" their productive resources in the United States.

### It Takes Two to Trade

Of course, this is a two-way street. When trade has developed between nations, restrictions on exports will reduce that nation's capacity to import foreign products, the result being lower living standards in both the exporting and importing countries. The embargoes on our exports of wheat and soybeans in recent years are examples of this wrong-headed policy.

The fundamental error of logic of those who want "free markets" for the other guy and "orderly" markets for themselves was well exposed in 1846 by Frederic Bastiat in his imaginary petition to the French Chamber of Deputies. His

satirization of the protectionist fallacy was in the name of free trade and freedom of enterprise. He entitled it a "Petition from the Manufacturers of Candles, Wax-lights, Lamps, Chandeliers, Reflectors, Snuffers, Extinguishers; and from Producers of Tallow, Oil, Resin, Alcohol, and in General Everything That Concerns Lighting."



Gentlemen, you are right: you reject abstract theories. As practical men, you are anxious only to free the producer from foreign competition and secure the *national market* to *national labor*.

We now offer you an admirable opportunity to apply your practice. We are subjected to the intolerable competition of a foreign rival whose superior facilities for producing light enable him to flood the French market at so low a price as to take away all our customers the moment he appears, suddenly reducing an important branch of French industry to stagnation. This rival is the sun.

We request a law to shut up all windows, dormers, skylights, openings, holes, chinks, and fissures through which sunlight penetrates. Our industry provides such valuable manufactures that our country cannot, without ingratitude, leave

us now to struggle unprotected through so unequal a contest.

Do not repulse our petition as a satire without hearing our reasons. Your protection of artificial lighting will benefit every industry in France. If you give us the monopoly of furnishing light, we will buy large supplies of tallow, coal, oil, resin, wax, alcohol, silver, iron, bronze, and crystal. Greater tallow consumption will stimulate cattle and sheep raising. Meat, wool, leather, and above all manure, that basis of agricultural riches, will become more abundant. Greater oil consumption will stimulate cultivation of the luxuriant olive tree. Resinous trees will cover our heaths. Swarms of bees will gather upon our mountains the perfumed treasures now cast useless upon the winds. In short, granting our petition will greatly develop every branch of agriculture.

Navigation will equally profit. Thousands of vessels will soon be employed in whaling, and thence will arise a navy capable of upholding the honor of France. (Note the defense argument.)

Paris will become magnificent with the glittering splendor of gildings, bronzes, crystal chandeliers, lamps, reflectors, and candelabras. When we and our many suppliers have become rich, our great consumption will contribute to the prosperity of workers in

every industry. No one, not even the poor resin manufacturer amidst his pine forest nor the miserable miner in his dark dwelling, will fail to enjoy an increase of salary and comforts. There is perhaps not one Frenchman, from the rich stockholder to the poorest match-seller, who is not interested in the success of our petition.

We foresee your objections, gentlemen; but there is not one which you will not have to take from the free-traders and which is not opposed to your practice. Do you object that the consumer must pay the price of protecting us? You have yourselves already answered the objection. When told that the consumer is interested in free importation of iron, coal, corn, wheat, cloth, etc., you have answered that the producer is interested in their exclusion. You have always acted to *encourage labor, to increase the demand for labor.*

Will you say that sunlight is a free gift, and that to repulse free gifts is to repulse riches under pretense of encouraging the means of obtaining them? Take care—you deal a death-blow to your own policy. Remember: hitherto you have always repulsed foreign produce because it was an approach to a free gift; and the closer this approach, the more you have repulsed the goods. You have, in obeying the wishes of other monopolists, acted

only from a *half-motive*; to grant our petition there is a much *fuller inducement*. To turn us down just because our case is much stronger than any previous one would be to accumulate absurdity upon absurdity.

When we buy a Portuguese orange at half the price of a French orange, we in effect get it half as a gift. If you protect national labor against the competition of a *half-gift*, what principle justifies allowing the importation of something just because it is *entirely a gift*? You are no logicians if, refusing the half-gift as hurtful to human labor, you do not with double zeal reject the full gift.

The difference in price between an imported article and the corresponding French articles is a *free gift* to us. The bigger the difference, the bigger the gift. It is as complete as possible when the producer gives us his goods entirely free, as the sun does with light. The question is whether you wish for France the benefit of free consumption or the supposed advantages of laborious production. Choose, but be consistent. And is it not the height of inconsistency to check as you do the importation of foreign goods merely because and even in proportion as their price approaches zero, while at the same time you freely admit the light of the sun, whose price during the whole day is at *zero*? 



# What Spending and Deficits Do

Henry Hazlitt

THE DIRECT CAUSE of inflation is the issuance of an excessive amount of paper money. The most frequent cause of the issuance of too much paper money is a government budget deficit.

The majority of economists have long recognized this, but the majority of politicians have studiously ignored it. One result, in this age of inflation, is that economists have tended to put too much emphasis on the evils of deficits as such and too little emphasis on the evils of excessive government spending,

whether the budget is balanced or not.

So it is desirable to begin with the question, What is the effect of government spending on the economy—even if it is wholly covered by tax revenues?

The economic effect of government spending depends on what the spending is for, compared with what the private spending it displaces would be for. To the extent that the government uses its tax-raised money to provide more urgent services for the community than the taxpayers themselves otherwise would or could have provided, the government spending is beneficial to the community. To the extent that the government provides policemen and judges to prevent or mitigate force, theft, and

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Baron's*, *Human Events* and many others. Best known of his books are *Economics in One Lesson*, *The Failure of the "New Economics,"* *The Foundations of Morality*, and *What You should Know About Inflation*.