

## Guidance from an Economics Classic:

### *Henry George's 'Protection or Free Trade'*

by C. Lowell Harriss\*

**Abstract.** The ideas of *Henry George* on *free trade* and *land taxation* are still relevant. The *standard of living* has risen without the adoption of his ideas on the latter in contradiction of his predictions. But the decrease in *protectionism* is important in explaining the failure of the predictions and upholds his views on the benefits of free trade.

#### I

##### Freedom, Progress and Hope

Human freedom is a *means* as well as an *end*. Progress, though in itself “the” end, is also a means to its own advance. Henry George thought and wrote about both freedom and progress — and much else — a century ago. Here we focus on one portion of his views, free trade. What he said can still benefit mankind; only part of his wise advice has been followed. And today that is being challenged by selfishness and ignorance.

Potentials of promise and hope remain — the poor can become less poor, the productive more highly rewarded, the restricted freer. Avoidable errors of economic policy plague the world. George, writing a century ago, was not the only economist, nor the only popular writer, who saw the merits of freedom and the human costs of man-made restrictions on trade. For decades, academia has been well supplied with economists who pointed to the adverse, anti-humane effects of man-made barriers to international exchange. Yet, there has been progress in freeing trade, perhaps more than George could have imagined.

George's interests took him beyond our borders. He wrote with bitterness about poverty here and abroad,

poverty greater than then necessary and reducible. He was a most exceptional person. A master of brilliant style, he dealt with topics of enduring importance. Thus much of what George says has relevance, direct and indirect, to present conditions. Some retains its original validity, but not all. Our critical faculties must not be dulled by admiration for what stands as valid. Today's world differs from that which George knew. Yet his insights and conclusions, resting in part on observation about human nature, are often valid, and they can always serve his stated objective of stimulating us to think.

He did not get the academic acceptance which the quality of his work justified (compared with the work of others in the academic world). Can things written a century ago have value today? Of course they can. We would be foolish to overlook wisdom of the past. Yet the world changes. No one writing a century ago could possibly know what has developed in the last generation or the last decade.

One reason for the acceptance of foolish practices has been weakness where George was powerful — in exposition by those who support freedom. George said things so very well. He wrote about matters of deep and broad concern. He wrote with conviction and style, with passion and vigor; yet too few of the potential beneficiaries have had exposure to his message. There remains, at least for me, a sense of an unending job — to convey the fruits of logic and the evidence as it accumulates. Deception can be exposed, waste revealed.

#### II

##### Free Trade, Not Obstruction

“What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war.” [George, 1980:47]

*Protection or Free Trade* was published in 1886. Its value continues. Any reader should find the exposition both revealing and stimulating. Examples abound. “Trade is not invasion. It does not involve aggression

---

\* C. Lowell Harriss is former Chairman of the Board of Trustees of American Institute for Economic Research, former Chairman of the Board of Directors of the Robert Schalkenbach Foundation (New York), and Professor Emeritus of Economics at Columbia University. This article, which is based on a paper presented before the Henry George Institute, originally appeared in the July 1989 issue of *The American Journal of Economics and Sociology*. We are grateful to that journal and to Professor Harriss for permission to reprint it here.

on one side and resistance on the other, but mutual consent and gratification.” [*Ibid.*, p. 46]

Yet restrictions imposed by political (governmental) force have a long history. For example, one complaint of the American colonists against Britain was London’s imposition of restrictions on trade. After achieving political independence, some leaders of the new republic advocated restrictions to encourage manufacturing. For nearly a century before 1886 the tariff for protection was a major issue of domestic politics. Influential groups pressed for restrictions as a means of encouraging specific types of industrial development.

Man-made obstacles to trade, it was argued, could foster economic progress; opponents pointed to adverse effects for consumers and exporters. It was the pro-restriction argument that George attacked. The term “protection” carries overtones of merit, connotations of something beneficent. Does it not prejudice the case somewhat? “Restriction” seems to me preferable.

The division of labor and exchange facilitate man’s efforts to rise from barbarism to civilization, from poverty and gross inequality toward generalized economic well-being.

Where each family raises its own food, builds its own house ... no one can have more than the barest necessities.... This social condition, to which the protective theory would logically lead, is the lowest in which man is ever found — the condition from which he has toiled upward. He has progressed only as he has learned to satisfy his wants by exchanging with his fellows and has freed and extended trade. [George, 1980:51]

Who would possibly challenge the historical record? No one. Yet the lesson is denied implicitly in arguments advanced time and again. Perhaps another statement will provide emphasis.

If to prevent trade were to stimulate industry and promote prosperity, then the localities where he was most isolated would show the first advances of man. The natural protection to home industry afforded by rugged mountain-chains, by burning deserts, or by seas too wide and tempestuous for the frail bark of the early mariner, would have given us the first glimmerings of civilization and shown its most rapid growth. But, in fact, it is where trade could best be carried on that we find wealth first accumulating and civilization beginning. It is on accessible harbors, by navigable rivers and much traveled highways that we find cities arising and the arts and sciences developing. [George, 1980:51-52]

Tariffs reduce the total real income of the economy. However protection may affect special forms of industry it must necessarily diminish the total return to industry — first, by the waste inseparable

from encouragement by tariff, and, second by the loss due to transfer of capital and labor from occupations which they would choose for themselves to less profitable occupations which they must be bribed to engage in. If we do not see this without reflection, it is because our attention is engaged with but a part of the effects of protection. We see the large smelting-works and the massive mill without realizing that the same taxes which we are told have built them up have made more costly every nail driven and every needleful of thread used throughout the whole country. [George, 1980:101]

Or today the successes of the steel industry in restricting imports make us as users of steel worse off. Workers in factories that require steel for export products — *e.g.*, heavy machinery — suffer. Getting anything like rational discrimination in a policy of governmentally determined restrictions is impossible. As one industry benefits, those which use its higher priced products must suffer.

But to introduce a tariff bill into congress or parliament is like throwing a banana into a cage of monkeys. No sooner is it proposed to protect one industry than all the industries that are capable of protection begin to screech and scramble for it. They are, in fact, forced to do so, for to be left out of the encouraged ring is necessarily to be discouraged.... Now every tax that raises prices for the encouragement of one industry must operate to discourage all other industries into which the products of that industry must enter. Thus a duty that raises the price of lumber necessarily discourages the industries which make use of lumber, ... duty that raises the price of iron discourages the innumerable industries into which iron enters; ... a duty that raises the price of sugar discourages the fruit-preserver, the maker of syrups and cordials, and so on. [George, 1980:168-69]

Note that recent restrictive decisions of our own government have applied to lumber, steel, and sugar! In discussing the relationship of tariffs to wages, George says:

It is not true that the products of lower-priced labor will drive the products of higher-priced labor out of any market in which they can be freely sold, since, as we have already seen, low-priced labor does not mean cheap production, and it is the comparative, not the absolute, cost of production that determines exchanges [George, 1980:198-99].

People subjecting themselves to restrictions on trade deprive themselves of opportunities to satisfy their wants.

It might be to the interests of [lighting] companies to restrict the number and size of windows, but hardly to the interests of a community. Broken limbs bring fees to surgeons, but would it profit a municipality to prohibit the removal of ice from sidewalks in order to encourage surgery? Yet it is in such ways that protective tariffs act. Economically, what difference is there between restricting the importation of iron to benefit iron-producers and restricting sanitary improvements to benefit undertakers? [George, 1980:105]

George's advocacy of free markets and his condemnation of restrictionism included explicit prediction that fraud and corruption are to be expected. The larger the scope of governmental action, the larger the scope for corruption (which will not be corrected by bankruptcy in the marketplace). Political realities can lead to results rather unlike the dreams of advocates.

George's view of human nature and governmental processes enabled him to draw conclusions about the realities of intervention as actually implemented. For example:

The result is, and always must be, the enactment of a tariff which resembles the theoretical protectionist's ideas of what a protective tariff should be about as closely as a bucketful of paint thrown against a wall resembles the fresco of a Raphael. [George, 1980:92]

### III

#### Arguments That Mislead

One chapter after another of *Protection or Free Trade* deals with arguments of a century ago — some still alive — favoring protection but misleading.

For example, George in referring to the infant industry argument has words relevant to recent proposals for a new "industrial policy."

So it is with the encouragement of struggling industries. All experience shows that the policy of encouragement, once begun, leads to a scramble in which it is the strong, not the weak; the unscrupulous, not the deserving, that succeed. What are really infant industries have no more chance in the struggle for governmental encouragement than infant pigs have with full grown swine about a meal-tub.... On the whole, the ability of any industry to establish and sustain itself in a free field is the measure of its public utility, and that "struggle for existence" which drives out unprofitable industries is the best means of determining what industries are needed under existing conditions and what are not. Even promising industries are more apt to be demoralized and stunted than to be aided in healthy growth by encouragement that gives them what they do not earn.... [George, 1980:96]

Two examples illustrate essential points of George's exposition:

Who would think of recommending a site for a proposed city or a new colony because it was very difficult to get at? Yet if the protective theory be true, this would really be an advantage. Who would regard piracy as promotive of civilization? Yet a discriminating pirate, who would confine his seizures to goods which might be produced in the country to which they were being carried, would be as beneficial to that country as a tariff. [George, 1980:35]

To have all the ships that left each country sunk before they could reach any other country would, upon protectionist principles, be the quickest means of enriching the whole world, since all countries could then enjoy the maximum of exports with the minimum of imports. [George, 1980:117]

Today's emphasis of advocates of restriction differs somewhat from that of George's day. The dominant pressure for restriction now focuses more on reducing competition from abroad that challenges activities already established in this country — steel, garments, textiles, lumber, autos, and so on.

### IV

#### The Freeing of Trade

The struggle for human freedom as against restriction of trade in America brought more defeats than victories for much of the half century after George began his efforts. The Smoot-Hawley Tariff of 1930 set new levels of restriction. Then this country took the initiative in reducing barriers, first on a bilateral basis, then on a broad scale. Drastic reduction in U.S. tariffs has been one of the outstanding achievements of political economy.

American leadership played a prominent role in the general reduction of tariff barriers over the world. We owe much to Cordell Hull. As he became Secretary of State in the 1930's, he set the course of tariff reduction which spread through much of the world. His ideas were formed in an era when George's efforts must still have been rather directly influencing opinion. Every U.S. president for half a century has spoken out for freeing trade. The issues have not been markedly partisan for two generations at least until recently.

With many more independent countries, the opportunities for obstruction have multiplied. The variety of restrictive devices has increased. Non-tariff barriers are numerous and often largely hidden. We hear about unfair methods of discouraging imports and encouraging exports — a complex and frustrating set of conditions.

Competition grows more intense for several reasons. Consumers benefit. Some industries and their employees suffer. Typically they seem to prefer burdening their

fellow Americans by favoring restrictions on trade as against wage-rate reduction — an understandable reaction.

The potentials for mutual benefit from international specialization and exchange grow as incomes rise over the world. Areas not so long ago poor, Taiwan for example, are now the source of consumer goods that appeal to Americans and increase the market for American goods and services.

## V

### **Free Trade an Incomplete Help for the Masses in George's System**

In itself the abolition of protection is like the driving off of a robber.

But it will not help a man to drive off one robber, if another, still stronger and more rapacious, be left to plunder him. [George, 1980:267]

In George's view of society there was just such a robber — the owner of land. George asserted that the lot of the masses had not improved with the use of labor-saving machinery and the advance of technology. He put responsibility, not on the growth of population but on the power of landlords. He saw no prospect of (significant) improvement in the levels of living of the

masses without the change in man's relation to land that he advocated.

Yet what has happened? Levels of living have risen for all, decade after decade. And there has been only a modest change in the distribution of the fruits of land. Of course, compared with a century ago, today property taxes do take more, sometimes much more, in this country and a few others. But not what George urged. His forecasts or predictions have not proved to be accurate.

Increasing productivity and capital accumulation have led to a rising real income throughout many economies. Life would be better for the vast majority if, as George advocated, [George, 1980:ch. 26], the tax on land had been gradually increased and other taxes reduced. But progress has been substantial without this reform.

One must, it seems to me, separate two elements that George believed were bound up together — the benefits from freeing trade and the benefits from relying more heavily on land taxation. Each can contribute to well-being and progress. It is not necessary to have both, to have either.

### **REFERENCE**

George, Henry, *Protection or Free Trade: An Examination of the Tariff Question with Especial Regard to the Interests of Labor* (1886); New York, NY 10021: Robert Schalkenbach Foundation, 1980.

*Economic Education Bulletin* (ISSN 0424-2769) (USPS 167-360) is published once a month at Great Barrington, Massachusetts, by American Institute for Economic Research, a scientific and educational organization with no stockholders, chartered under Chapter 180 of the General Laws of Massachusetts. Periodical postage paid at Great Barrington, Massachusetts. Printed in the United States of America. Subscription: \$25 per year. POSTMASTER: Send address changes to *Economic Education Bulletin*, American Institute for Economic Research, Great Barrington, Massachusetts 01230.