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ASPECTS OF AMERICAN FOREIGN TRADE POLICY

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I. Physical Conditions

The natural conditions of production are in the United States more favorable than in any other country with the sole exception of Russia. (But Russia does not count at all on the world market of industrial products and only little in the export of raw materials. Thanks to the anti-capitalist policy of the Csars and to the inadequacy of communist methods of production, it is one of the most backward countries.) In most of the branches of production the input of capital and labor required for the production of one unit of a product is lower in the United States than abroad. Only foodstuffs and raw materials, such as rubber, wool, coffee, tea, cocoa and some metals are in other countries produced at lower physical costs.

II. Capital Supply

The United States is the richest country with regard to capital. This means that the equipment of the country's productive apparatus, with machinery and so on, is greater per unit than abroad.

III. Effects of Laissez-faire, Laissez-passer

In a world of perfect laissez-faire, laissez-passer, there prevails a tendency toward a concentration of capital and labor in those areas which offer the most favorable conditions for production. Capital and labor have the tendency to move to those places in which the physical input required for the production of one unit is lowest. The same forces which bring about the result

within every country - capital and labor - are not equally distributed among all parts, but have the tendency to move to the places offering the most favorable conditions for the various branches of production, would, within a world of perfect free trade, work toward an international distribution both of capital and labor.

IV. Foreign Investment

In the course of the nineteenth century, the capitalists got the conviction that they could safely invest their capital in foreign countries. They considered the risk involved in foreign investments as only slightly higher than that involved in domestic investments of the same class. Thus, the capitalists of Western Europe provided the capital needed for a modern equipment of the apparatus of production of the then economically backward countries.

Experience with foreign investments has not been propitious. But for the investments made in the Anglo-Saxon countries and in some smaller European countries, the greater part of the exported capital was lost or will most probably be lost in the near future. Almost all debtor countries are nowadays anxious to expropriate the foreign capitalist. Bonds are either openly repudiated or rendered valueless for the owner by means of inflation, currency devaluation, foreign exchange control or confiscatory taxation. Foreign property is liable to discriminatory taxation or undisguised confiscation. The prejudice against foreign capital is so firmly and universally accepted by public opinion that the governments of the creditor nations sometimes encourage the debtor nations' policy of expropriating their own citizens titles.

In the post-war world the United States will be more or

less the only country which could possibly export large amounts of capital. But the American capitalist will shun foreign loans and investments. Once bitten twice shy.

Notwithstanding the tremendous capital consumption brought about by the war, by the inflation and by some cherished policies on the one hand and the ^{urgent} need for capital for the re-adjustment of American industries for peace-time production on the other hand, the United States will be, after the war, the country comparatively best equipped with capital. America's technical preponderance will be much greater than in the past. Its superiority over all other countries - perhaps with the exception of Canada and Sweden - will be enormous. All other industrial countries will completely lack the means to keep pace with America.

V. Discrepancies in Wage Rates

In a world of perfect mobility of labor, there prevails a tendency toward an equalization of the price of labor. Workers move from the areas in which the productivity of labor, and therefore wages, are lower to the areas in which they are higher.

All countries - not only the United States - have erected immigration barriers preventing the competition of immigrant labor on the domestic labor market. Thus, the gulf separating the comparatively over-populated countries from the comparatively under-populated countries cannot be bridged. The discrepancies in wage rates and standards of living are perpetuated.

VI. Foreign Trade and Costs of Production

International trade is possible only if the costs of production are lower in the exporting countries than in the import-

ing countries.

There are people who say that import duties are required in order to render competition fair, to deprive foreign producers of the advantage which they derive from lower costs of production and to equalize conditions for domestic and foreign production. The consistent application of this principle must needs lead to a total exclusion of imports and consequently to perfect autarky (economic isolation) of each country. Goods can be imported only if they are produced abroad at lower costs.

Commodities can be imported from Thule into Atlantis only if either the national conditions of production are more favorable in Thule, or if Thule compensates unfavorable conditions of production by lower wage rates.

The predominantly industrial countries of Europe can neither feed nor clothe their population out of domestic foodstuffs and raw materials. They have to pay for these imports by the export of manufactures. Most of these manufactures are produced out of imported raw materials. Although the physical costs of production are for them higher than for the competing industries of other countries, they have to under-sell them on the world market. They can only compete by paying lower wages.

The conditions of some of these European countries - especially those of Great Britain - were in the past, to some extent, less unfavorable because they had foreign investments in the predominantly agricultural countries. A part of the foodstuffs and raw materials needed came into these European countries as payment of interest and as dividends, as it were. In the post-war time, Great Britain - with the greater part of its foreign assets gone either as

a means for financing the war or by the default of the debtor nations - will not be much better off than the poor European countries were already in pre-war days.

The United States too depends on some imports of food and raw materials. Some commodities which the Americans would not like to miss cannot be produced at all in this country, or only at unreasonably higher costs. America could withdraw from international trade only to the serious prejudice of its standard of living.

VII. Protection for Whom?

It would be idle to discuss American business conditions under the assumption that the immigration barriers were to be removed. A realistic investigation of post-war problems must take it for granted that immigration will be kept at a very low level.

The restriction of immigration results in higher wages. The potential market wage rates, i.e., wage rates as they would be without any pressure and compulsion exercised on the part of the government or trade unions, will remain at a higher level than that of a hypothetical state of free immigration. (We will have to deal later with the effects of union policies.)

Under this assumption, we have to ask: "Protection for whom? Which section of the population is interested in American anti-import policies? What are their economic, social and political consequences?"

VIII. Protection for Farmers

It is quite obvious that American business is not interested in a policy of high prices for agricultural products.

In the absence of any government measures designed to keep the prices of farm products at a higher level than that established

on an unhampered market, prices would fall and domestic consumption of farm products would increase. But there is no doubt that many farmers would have to restrict their production or to give up production completely. This would result in an inflow of hands into the market for industrial labor and in a tendency to lower potential wage rates in manufacturing.

It is not true that industry would suffer because the farmers would restrict their buying of manufactures. Against this falling off is to be held: (a) the increased buyings of the consumers who will have to spend less for food; (b) the purchases of those former farmers and farm hands who will, under the change of conditions, work in industry; (c) the increased purchases on the part of the foreign importers of farm products, (for instance, Argentina.)

The artificial raising of domestic farm produce prices is virtually a subsidy paid on the part of the non-agricultural section of the nation to the advantage of the agricultural section. It is vain to describe it as a benefit to industry on the ground that the farmers spend their additional income in buying manufactures. If a grocer makes a man a gift of ten dollars, the gift still remains an expense of the giver and a benefit for the receiver, even if the latter spends the whole amount in buying groceries in the benefactor's shop.

Agriculture was once the nation's most important export trade. Conditions have changed to the disadvantage of American farming because impoverished Europe must restrict its purchases and because other nations' competition has become stronger (for instance, Canada and Argentina in the market for wheat.) A readjustment of

American farming to actual conditions is unavoidable. Government interference can delay it only for a time and prolongs the hardships of the period of transition and adaptation.

IX. Operation of the Law of Comparative Costs

American processing industries would not need any protection in a state of laissez-faire, even if there are immigration barriers. They are, but for some special branches, like Paris dress-making or English cloth, paramount in the world. Natural conditions of production are extremely favorable in this country, the supply of capital is more abundant than anywhere else, the ingenuity of the entrepreneurs, the efficiency of the inventors and designers, and the skill of the workers, are unsurpassed. The technical equipment of American plants and the methods of business management and marketing are unparalleled.

This does not mean that in a world of perfect free trade America would not import anything and consequently neither export anything. There are foodstuffs and raw materials which cannot be produced at all at home or only at much higher costs. There is tourism which will expand the more the well-being of the Americans improves.

But even if we abstract from the exports destined to pay for these outlays and from capital export, we have to realize that America would not develop all branches of industry in a uniform way. The Ricardian law of comparative costs has demonstrated in an irrefutable way that it is advantageous for every country to concentrate its efforts upon the expansion of those branches of production

in which its superiority is highest and to import commodities in whose production its superiority is comparatively lower, even though these too could be produced at home under more favorable conditions than abroad.

Under free trade for products and capital and immigration barriers for labor, there would prevail in America a tendency to prefer those branches of manufacturing in which wages form a smaller part of the total costs of production. The country would favor more the expansion of the heavy industries and less those branches which require comparatively more labor. The resulting imports would bring about neither bad business nor unemployment. They would be compensated by an increase in the export of goods which can be produced to the highest advantage in this country. They would raise the standard of living both in America and abroad.

Of course, an abrupt abandonment of protectionism would inflict many hardships upon those branches of American manufacturing which would shrink under free trade. It would be poor consolation for those affected that other branches of business will profit. But, let us not forget that all branches of American industry are on the eve of a period in which they will have to readjust radically their methods of management and their equipment in order to meet the requirements of post-war markets. In such a period of transition, it would be easier to execute the changes necessary for free trade business.

X. Unemployment

On the unhampered market prices are set at the point at which the amount of the commodity which the buyers will take is equal to the amount which the sellers will sell. Everybody who is prepared to pay the market price can buy as much as he wants, and everybody who is prepared

to take the market price can sell as much as he wants.

The same is true for the market price of labor, for wage rates. There is always some amount of voluntary unemployment because there are workers who do not want the jobs which are offered them and are waiting for better opportunities. But, on the unhampered market, unemployment is more or less a transitory phenomenon.

There is no serious problem of unemployment, there is no *mass* ~~un~~ unemployment prolonged year after year.

But it is different if - either by government decree or by trade union pressure - wages are fixed at a higher rate than that which the unhampered market would have fixed. Then the demand for labor shrinks and permanent unemployment of a part of the potential labor force results.

The concept of "full employment" is a demagogic slogan if it does not refer to a definite wage rate. There is but one means to obtain full employment: to abstain from the enforcement of minimum wage rates higher than the potential market rates. *Mass* ~~un~~ unemployment is not, as the socialists would have us believe, a phenomenon inherent in capitalism. It is, on the contrary, the result of the endeavors to sabotage capitalism by government or trade union interference.

All the other methods suggested for the attainment of full employment are ineffectual.

Non-inflationary government spending (i.e., not financed by additional credit expansion or by the issue of additional bank notes) absorbs capital or, if financed by income taxation, income which would have been invested or spent otherwise. It abolishes, on the one hand, as many jobs as it creates on the other hand.

Inflation, credit expansion and currency devaluation are only successful if money wage rates lag behind the rise of commodity price, i.e., if they result in a fall of real wage rates.

Labor service (Arbeitsdienst, the favorite means of totalitarian governments) compensates the viciously higher wages of the workers employed in private industry at union rates by viciously lower wages of the men employed in the emergency works.

If it is made illegal for employers to discharge employees whom they cannot employ gainfully, the enterprises suffer losses and are forced to conserve a part of their capital. The government succeeds in the short run, but in the long run, a more drastic fall in wage rates becomes inescapable.

Such are the long-run consequences of manipulating wage rates by decree or by trade union compulsion. Let us turn to the short-run consequences.

XI. Trade Unionism Under Free Trade

Every attempt to raise wage rates above the point established on the unhampered labor market disarranges the conditions of competition. If there is free trade and the rise is limited to one country only, as is normally the case, foreign competitors whose costs have not changed find it easier to underbid the domestic producers. Under free trade, the undesired effects of minimum wage rates policies would appear immediately. The domestic entrepreneurs would be forced to restrict their production at once and consequently to dismiss workers. It would become obvious for trade union members that union methods are not an appropriate means to improve their standard of living.

It is different if foreign competition is barred by im-

port duties. Then the entrepreneurs can raise prices without being menaced by foreign competition. The harmful consequences of the wage raise are either delayed for a short time or disguised in such a way that the laymen do not see them. If prices are raised to such height that the wage earners' gains are absorbed by the consumers' losses, real wage rates remain unchanged and the undesirable consequences of union policy do not appear. But the whole nation suffers on account of the fall of the productivity of labor resulting from the partial withdrawal from the international division of labor.

The function of protectionism in an industrially inefficient country is to mask the effects of unionism. Trade unions would never have acquired their present-day prestige if every wage rise attained by strikes and violence against strike-breakers had immediately and visibly resulted in the dismissal of a part of those employed.

XIII. Business and the Tariff

It follows that American big business is not interested in the maintenance of protection. The greater the role played in any branch of business by material equipment in relation to the amount of labor employed, the greater will American superiority be in the post-war period. The German and the British metallurgical and chemical works will be seriously handicapped by the shortage of domestic capital and by the difficulty of providing foreign capital.

Conditions will be different only with those branches of American industries in which labor costs are the most important item in the total costs of production.

It is true that free trade will lower American prices by preventing their rise above the world market level. But on the

other hand, it will lower wage rates too.

As a whole, the nation would profit from free trade, provided only that the post-war readjustment of the country's industrial apparatus is effected with regard to free trade conditions.

If there is a section of the population whose "class interests" require protectionism, it is certainly not business, but rather employed trade union members, (as distinguished from the unemployed) and farmers. They should be charged in the eyes of public opinion with the responsibility for a policy which must needs lead to high prices of consumers' goods.

XIII. America and European Reconstruction

The usual way of representing the problems of American post-war policy with regard to international relations is to speak of an alternative: isolation and national egoism on the one hand and sacrificing national interests for the cause of foreign nations on the other hand. This mode of viewing the matter is, however, not correct.

First of all, we have to realize that America can do but little for the reconstruction of broken down Europe and for a return to sound peaceful conditions. The problem of European reconstruction is primarily a problem of mentalities and ideologies, a moral issue, and not an economic and financial problem. What Europe needs most urgently is the substitution of a mentality of peaceful cooperation for the mutual hatreds and antagonisms. The pre-war state of affairs was that every nation, even the smallest one, waged a permanent economic war against all other nations. Every nation was anxious to inflict - by tariffs, the quota system, foreign exchange control, and so on - as much evil as it could upon foreigners and domestic

minorities. In the greater part of Europe, every nation considered all its neighbors as deadly foes and was ready to profit from every occasion in order to rob them of a part of their territory. (Take, for instance, the case of Poland which, in the twenty-one years of its national autonomy, seized, by the use of arms, territories belonging to three neighbor states; namely, Russia, Lithuania and Czechoslovakia.) America could occupy the European continent and rule it according to the principles applied by Great Britain in India. But even this undemocratic policy, which nobody recommends, would not mean more than a temporary solution. Europe's rebirth must come from within; it cannot be enforced upon reluctant or indifferent peoples by a foreign army and by foreign administrators and educators.

It is vain to look for new institutions or for new constitutional devices. What is needed first is not a new Covenant for the League of Nations or an European Federation, but a radical change of mentalities. Only the thorough extermination of the spirit of violence, conquest and oppression can save European civilization.

It is not true that America can aid Europe's reconstruction by granting large credits. In the years between the two World Wars many billions of dollars flowed from America to Europe. Some governments used these credits for the prolongation of a policy of wasteful spending, other governments - foremost among them the German Reich - for rearmament. Perhaps Europe would have been better off without any American credits. At any rate, they did not further Europe's prosperity. America lost its money, that is certain too.

America has paid a high price indeed for its ignorance of European conditions. If the American bankers and investors had been

better informed, they would not have lent any money to governments and government agencies which consider it as patriotic to repudiate foreign loans. They would not have provided the German Reich with a part of the funds required for rearmament. In the twenties, more financial isolation on the part of America would have served better the cause of peaceful reconstruction.

It is a pity that German books are not better known abroad. Already more than forty years ago the intellectual leaders of imperial Germany - the professors Gustav von Schmoller and Adolf Wagner - frankly declared that the main goal of German twentieth-century policies was the establishment of a great German dominion in South America and that the "vain pretensions" of the Monroe Doctrine would not prevent them from accomplishing this task. The Nazis did not build up a new doctrine; they only gave a new name to doctrines which were paramount in Germany already at the end of the nineteenth century.

In view of the attitudes of Germany (and of Japan too), political isolation of the Western Hemisphere is infeasible. Conflicts in Europe and Asia must sooner or later implicate America too. The establishment of two big totalitarian empires, one on the other side of the Atlantic, the other on the other side of the Pacific, would threaten America's ⁱⁿdependence in a dreadful way. Japanese rule of Australia or German control of the French and Spanish coastline would be intolerable for this country. America fights this war for its own future, not only for the sake of the other democracies. In this age of international division of labor and of air power, each country's destiny is linked up with the fate of the rest of the world.

XIV. Business and Socialism

In dealing with the question of what the genuine interests of business are, we have to distinguish between interests with regard to the fundamental problem of social organization and interests with regard to economic policies within the framework of a society based on private ownership of the means of production and private enterprise (capitalism or market society.)

The first problem is in our day mostly dealt with from the viewpoint of Marxian ideas. According to this doctrine, there prevails an irreconcilable conflict between the interests of the exploiting classes and those of the exploited. Only the exploiters (capitalists, entrepreneurs and owners of large landed property) are interested in the preservation of capitalism which gives them the unfair privilege to withhold a part of the income which should duly be distributed to the workers. On the other hand, the class interests of the proletarians ask for the establishment of the socialist commonwealth, i.e., for the substitution of public control of business for private enterprise.

If this doctrine were correct, the cause of capitalism would be hopeless. A minority could not succeed in imposing lastingly on the majority a system of social organization which serves only its own selfish interests at the expense of the majority.

It is not the task of these cursory statements to prove anew that the socialist doctrine is entirely wrong and that capitalism is the only system which can supply the masses with all the commodities required for a really human way of life. This is the task of economic theory and it has been fulfilled.

It is not true that the preservation of private enter-

prise - one should rather say: the return to private enterprise through the abandonment of the attempts to impose government control on business - serves only the selfish class interests of the "bourgeoisie." Everybody, without any exception, comes off much better under capitalism than under socialism.

When businessmen oppose measures designed to bring about socialism (central planning), they do not embark upon class struggle and they do not fight for selfish interests. They simply do their duty as citizens.

XV. Business Under Protectionism

The unhampered market is a democracy in which every penny gives a right to vote. Its operation forces the capitalists and the entrepreneurs to adjust their activities to the consumers' demand. The consumers decide through their buying and not-buying what should be produced and in what quality and quantity. A businessman who is slow in adjusting his production to the demands of the consumers suffers losses and will, if he does not change his methods, finally be outstripped by more efficient men. Production for profit means consumers' sovereignty. In the management of business, the entrepreneur is an intermediary only. The real bosses are the consumers whose wants the entrepreneurs are bound to satisfy as efficiently as the state of technological knowledge and the available factors of production allow.

People are merciless as consumers. They do not care about vested interests of capital or of labor. When technological progress offers them a new method of enjoyment, they turn to the novelty and abandon the old. They are eager to buy on the cheapest market. They are continuously driving business toward the utmost effort.

The absence of any privilege for the less efficient producer is a characteristic feature of modern capitalism. In the middle ages, production was regulated by statute. The guilds had the right to bar access to trade to every non-member, to force their members to cling to traditional old-fashioned methods of production, and to prevent selling at lower prices than those fixed by them in a monopolistic way. The abolition of this system paved the way for the unprecedented economic progress of the age of steam and electricity. It was America's great chance that the colonists did not bring with them from the old country any plans for business restriction.

A privilege protecting an entrepreneur or a group of entrepreneurs against the competition of people producing cheaper and better products furthers, at the expense of the rest of the people, the class interests of this branch, provided that the access to this branch is restricted. If everybody is free to enter this field of business, the privilege is of temporary value only; the inflow of additional entrepreneurs will bring down excessive earnings to normal levels.

A privilege serves the class interests of those privileged only if the other classes are not privileged at all or not to the same extent. If all are privileged to the same degree, everybody loses, as consumer, what he has profited as producer. But that is not all. Every member of the community is hurt by the restriction imposed on improved and cheapened production.

It is a mistake to believe that the interests of all manufacturers, with regard to protectionism, are uniform.

No manufacturer can profit from a tariff which imposes
import
/duties in an equal amount on all foreign goods. What he gains in

selling his products is absorbed by the higher prices which he has to pay for his equipment, for the semi-manufactured articles, and for the raw materials and by the higher prices of consumers' goods. It is true that some branches of production can expand while they would shrink under free trade. But, on the other hand, some branches which would expand under free trade, have to shrink. The result - a fall of imports and a corresponding fall of exports - does not favor anybody. On the contrary, the whole nation suffers because the average productivity of capital and labor declines, as commodities have to be produced in places which are less fit.

If protection is granted to some branches of manufacturing only, the short-run interests of those who have already previously invested in this branch are favored. But in the long run, they will lose their advantage by the competition of new plants.

It is not true that it is an advantage for a nation to replace imports by domestic products. With the present state of technology, it would be possible for Great Britain or for Canada to prohibit the import of grapes and coffee and to grow them in hot houses. Everybody would qualify this as lunacy. But it differs only in degree, not in principle, from other protectionist schemes. Just as the cheapest way for the British to provide coffee and grapes is to produce cloth for export, so the cheapest way for Americans to get hand-made embroideries is to export motor-cars and fountain pens.

The popularity of protectionism is due to the error that imports can be reduced without a corresponding restriction of exports.

If we abstract from foreign investments, we have to realize that a rise of imports, of tourists' expenses abroad, and of services received from foreign countries, means that the nation's material well-being is improving and that the nation is rich enough

to pay by exports what it wants to buy abroad.

It is not true that imports create domestic unemployment or lower the domestic standard of living. As imports have to be paid by exports, they do not restrict the volume of domestic production. Free trade channels production into those lines in which its net return is highest. Free-trade America would, for instance, import tablecloths from China and pay by exporting motor-cars.

All this is valid, whatever the foreign trade policies of foreign countries are. America would profit from free trade even if all other nations cling to protection. If, for instance, France erects trade barriers against American imports, it will reduce American purchases of French products, unless France does not import from countries to which American exports exceed American imports.

Thanks to the facts that America offers, on the average, the most favorable physical conditions of production and that it is richer in capital than the other countries, and thanks to the immigration barriers, potential market wage rates will be higher than in the rest of the world, perhaps with the exception of Australia and New Zealand. The only reason which could be brought forward in favor of protection is that protection disguises - but without removing it - the futility of all methods of raising, by an alleged pro-labor policy, the standard of living of all wage-earners above the level which makes for full employment.

XVI. Trade Union Principle Versus Market Price Principle

America's main post-war problem will be the clash of the trade union principle and the market price principle. A good deal of the nation's capital will be consumed by the war effort. It will be impossible to provide the bulk of the nation with all the commodities

needed for the maintenance of the pre-war standard of living before the re-equipment of the plants with new machinery is accomplished. A serious lowering of real wage rates and of the standard of living for a period of transition is unavoidable. If boom wage rates are to be preserved, mass unemployment will result and the reconstruction of the domestic apparatus of production will be hindered.

Public opinion is under the spell of trade union ideology. Wage cuts are considered as out of the question, and unemployment as the evidence of capitalism's failure. The slogan, "freedom from want" fascinates the masses. Nobody tells them that capitalist America has succeeded better in fighting want than the totalitarian countries of Europe. Article 118 of the Constitution of the U.S.S.R. gives all Russians the right to receive employment "with compensation measured by the quantity and quality of their work." But the standard of living of the Russian worker is much lower than that of the workers of any European country, to say nothing of America.

It is of no use to indulge in illusions. If a radical change of ideology does not occur, post-war America will turn toward socialism either of the German or of the Russian pattern.

There is, it is true, a lot of dissatisfaction with the working of the Bureaucratic institutions and with trade union management. But people do not indict the system as such; only the men who handle it. They want to abolish the shortcomings of government control and bureaucracy by more government control and more bureaucracy. A reappearance of unemployment, unavoidable if unions do not accept temporary wage cuts, will swell up the ranks of radicalism.

Businessmen have an aversion for ideological discussions and for "isms." Thus, they left the field of theoretical discussion to the self-styled progressives and surrendered mentally to anti-

capitalist doctrines. Our contemporaries call "progressive" every step toward more government interference, and "democratic" policies restricting the jurisdiction of voters and parliamentary institutions and vesting more powers in bureaucrats; disparage private business and make it the scape-goat for all evils. They call "social gains" the policies which resulted in mass unemployment

Every experience is to-day interpreted from the point of view of anti-capitalist bias. The poverty of the Russian masses is either passed over in silence or explained as the consequence of the "capitalism" of Czarism or of the animosity of Western capital. America's high standard of living is - in the light of these interpretations - a phenomenon which occurred in spite of capitalism. Armaments and war are the outcome of the machinations of the "merchants of death;" but at the same time, the same people blame American and British business and finance for its appeasement policy.

No political party can change the trend toward all-round government control and full socialism if such doctrines remain supreme. The fate of Western civilization depends on whether or not a radical ideological reversal occurs.

There is no such thing possible today as the political isolation of a nation. America's peaceful life is no longer sheltered behind a wall of waves since the airplane has become the foremost weapon of aggressors. Economic isolation would only hurt the economic well-being of the nation. But ideological isolation, i.e., the abandonment of the Russian and Prussian doctrines of state omnipotence, would serve best America's own interests and at the same time set an example to the rest of the world.

XVII. Concord and Conflict of Group Interests

Within the unhampered market society there is no conflict between the interests of the various branches of business and trade nor between the interests of various individuals. That some people can make profits by supplying their fellow-citizens with better and cheaper commodities does not harm the consumer; it benefits him.

But things are different, if privileges are granted to people who cannot stand competition on the unhampered market. Then the particular interests of these privileged come into conflict with the interests of the rest of the nation. The political scene degenerates into a race for privileges. Every group is anxious to secure more privileges than any other group. Political parties become pressure groups fighting for class privileges.

Some groups may profit from such policies of protection. There is no doubt that the owners of submarginal farm land and of silver mines and some labor autocrats are favored by them. The immense majority of the nation suffers losses only, as the total amount of goods available for consumption shrinks.

It is unlikely that some groups of business could, in the long run, succeed in endeavors to be included into the small class really profiting from privileges. The anti-capitalist bias of public opinion will ask for a confiscation of business profits originating from protective tariffs. Protection for manufacturing owes its popularity only to the belief that it is a means to reduce unemployment. Nothing is more unpopular nowadays than business profits. People are intent on confiscating them by taxation or on making them disappear by price control.

It will not be an easy task to defeat these tendencies. But it will be impossible if the radicals are able to provide their claims with an appearance of justification by pointing out that a few enterprises owe their profitability to the working of tariffs.

The main justification of private enterprise is that it serves best the well-being of the nation. But public opinion will be reluctant to acknowledge this fact if it realizes that business too is asking for government interference in order to keep prices high.