

How to Remove Barriers

by Henry Hazlitt



THE proposal that we associate ourselves with the European Common Market has diverted attention from the real problems of American foreign trade. Administration spokesmen talk as if such an association would be necessarily a step toward lower trade barriers in general, and as if any other course would be necessarily toward more protection. But the problem is less simple than that.

1—It may be wise for us to bargain with the Common Market. But this would not necessarily be a step toward freer trade. It is still uncertain whether the Common Market will prove to be a step toward freer world trade or toward bigger inward-looking, discriminatory, protectionist blocs. The Common Market does not seem to be welcoming Britain with great fervor or the associate membership of such neutrals as Austria, Switzerland, and Sweden. It has still not decided whether it is primarily economic or primarily political. It is still to be seen whether it can hold together in spite of nationalistic suspicions, jealousies, and interests. It is doubtful it can hold together in the long run unless the six nations adopt a common currency or complete currency convertibility based on a common gold standard.

2—Our most important need is not to start bargaining reciprocal concessions with the Common Market, but to make and keep ourselves competitive in foreign trade. This means that we must slash, and not increase, Federal spending; that we must stop the deficits; that we must halt inflation, and every policy that undermines confidence in the dollar. We must keep down our prices and costs. We must revise or repeal all Federal labor laws that encourage excessive union demands and lead to faster rises in wage rates than in marginal labor productivity. We must revise our tax laws to give more incentives to industry, particularly for investment in cost-cutting or quality-raising equipment. Only such thoroughgoing reforms can keep us competitive in world markets.

3—The first step we must take in reducing foreign trade barriers is to abolish the import quota system we have been building up in recent years—on sugar, on petroleum, on cotton textiles. There is no legitimate aim of a quota system that cannot be ac-

complished as well or better by a tariff. Quotas are a totalitarian device that require detailed farm-by-farm or firm-by-firm output or import quotas, that reduce or eliminate competition even by domestic producers or importers with each other. A tariff at least permits domestic competition, and so tends to hold down domestic costs. It also brings in revenue.

4—When we have abolished quotas, we can start reducing tariffs. But it is extremely important that this be done *gradually*, to bring a minimum of disruption to industry, and to allow time for adjustment. Tariffs might even be reduced, by pre-set schedule, by very small changes month by month over a number of years. It is violent and unforeseen changes in tariffs, either way, that cause most uncertainty and disruption.

5—The worst course would be to reduce tariffs suddenly or sweepingly and then, as the Administration bill proposes, offer government cash payments or other forms of "adjustment assistance" to the workers or firms injured. It would be impossible, in fact, to know precisely how much or which unemployment or injury could be attributed to a tariff reduction. The decision would have to be arbitrary. "Adjustment assistance," in brief, will lend itself to discrimination, favoritism, and corruption, and will expand the area of government paternalism and controls.

SELF-DEFEATING CURE

There is no good reason, moreover, why workers presumptively unemployed because of tariff changes should be more generously treated in length or amount of benefit payments than workers unemployed through other reasons that may be no direct fault of their own. Or why firms presumptively hurt by tariff changes should get better tax treatment or bigger government loans than firms hurt by other causes outside their control. To keep our high-cost inefficient producers going artificially, at public expense, would defeat the very purpose of tariff reduction.

And high tariffs, bad as they are, are infinitely less dangerous to a free economy than paternalistic government subsidies, direct or indirect.