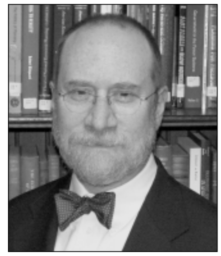

“The Tariff Is the Mother of Trusts”

BY SHELDON RICHMAN

In articles such as Roy Childs's “Big Business and the Rise of American Statism,” Murray Rothbard's “War Collectivism in World War I,” and Joseph Stromberg's “The Role of State Monopoly Capitalism in the American Empire,” advocates of the freedom philosophy have laid the blame for big government largely at the door of business. This may conflict with the way we'd expect things to be, but ultimately this is a historical matter to be settled empirically.

Besides, why should we expect business people to favor laissez faire and to abhor government intervention? Few people outside of business do so. Why would people in business be different? As Albert Jay Nock noted long ago, people tend to favor the path of least exertion. If a business owner can increase his profits with a tax, regulation, or import quota on his domestic or foreign competitors, why not go for it? You and I may expect his ethical governor to stop him. But what if he, like most other people, doesn't equate government action with plunder? In that case he won't see himself as a hooligan once removed. Rather, he'll see himself as a citizen in a democracy petitioning his government for badly needed relief, which, as it happens, will also serve the general welfare.

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There's another consideration. You and I know that the business cycle is a creation of central banking. Panics, depressions, and recessions are not found in the pure market economy. They are the result of manipulation of money by a political authority. But most people don't know that. Business people throughout U.S. history have believed that the trade cycle is inherent in nature, and they looked to government to moderate if not eliminate it. If business people were familiar with Mises and Hayek's trade-cycle theory, big-business statism might be harder to understand. As it is, there is little mystery at all.

The above-mentioned writers go one more step and connect interventionism at home with interventionism abroad, that is, imperialism in one form or another. This should come as no shock. Those who want government to manage the national economy for the betterment of “the nation” (or at least their firms and industries) will easily believe that it should manage the world economy for an even greater good. American nationalism almost from the beginning lent itself to the messianic view that only the United States could bring enlightenment to the rest of the world—and at a profit to boot.

Why should manifest destiny have been restricted to the continent? In 1898 it was extended to the Philippines, with the shedding of much blood and the death of self-determination. (Laissez-faire advocates like William Graham Sumner and Edward Atkinson objected.)

That some enemies of markets (Lenin, for example) also saw a connection between business and imperialism doesn't mean no connection exists. States regulate economies, and states make war, conquer territory, and impose their influence. The common element is obvious.

Ludwig von Mises in several places makes the connection between domestic and foreign interventionism. “A nation's policy forms an integral whole. Foreign policy and domestic policy are closely linked together; they are but one system; they condition each other,” Mises wrote in *Omnipotent Government*. “Where there is free trade, foreign competition would even in the short run

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frustrate the aims sought by the various measures of government intervention with domestic business. When the domestic market is not to some extent insulated from foreign markets, there can be no question of government control. The further a nation goes on the road toward public regulation and regimentation, the more it is pushed toward economic isolation."

Regulation increases the cost of doing business, giving an advantage to foreign competitors, who therefore must be denied free access to the home market. Under the right circumstances, burgeoning protectionism, the breakdown of the division of labor, and the need for raw materials instill thoughts of war and conquest in ambitious national leaders.

Moreover, protectionism, by excluding low-cost competition, has a cartelizing effect on domestic industry. "The tariff is the mother of trusts" they used to say. This means that artificially fewer firms can charge higher prices and pay lower wages than would have been the case in a fully competitive market. In reality the welfare of "the nation" is paid for dearly by consumer-workers. As Cobden and Bright knew, laissez faire is the workingman's cause.

Cartelization sets the stage for the next round of intervention. As Joseph Schumpeter, an economist friendly to the market economy (if pessimistic about its prospects), explained in *Imperialism and Social Classes*, at the high prices induced by protectionism, firms can't sell enough units to take advantage of economies of scale. "The trust thus faces a dilemma," Schumpeter wrote. "Either it renounces the monopolistic policies that motivated its founding; or it fails to exploit and expand its plant, with resultant high costs. It extricates itself from this dilemma by producing the full output that is economically feasible, thus securing low costs, and offering in the protected domestic market only the quantity corresponding to the monopoly price—insofar as the tariff permits; while the rest is sold, or 'dumped,' abroad at a lower price, sometimes (but not necessarily) *below* costs."

Thus "overproduction" is now a new problem for the government to solve. How? By securing foreign markets in which the surpluses can be unloaded. "Securing foreign markets" is a mandate bursting with potential for state mischief, which is to say bullying and war.

Say's Law

You and I know, as J.B. Say taught, that there can be no general overproduction in a free economy, but we're not talking about free economies and people familiar with Say's Law. We're talking about an interventionist environment in which business people have unsold surpluses on their hands. Who are they gonna call? Not Ghostbusters. The result is the Open Door policy, gunboat diplomacy, and a world fiat-monetary system, punctuated by the occasional shooting war.

Schumpeter goes on: "Thus we have here, within a social group that carries great political weight, a strong, undeniable economic interest in such things as protective tariffs, cartels, monopoly prices, forced exports (dumping), an aggressive economic policy, an aggressive foreign policy generally, and war, including wars of expansion with a typically imperialist character. Once this alignment of interests exists, an even stronger interest in a somewhat differently motivated expansion must be added, namely, an interest in the conquest of lands producing raw materials and foodstuffs, with a view to facilitating self-sufficient warfare." I would only add that the conquest can be political rather than military.

As Stromberg points out, things need not occur in the exact order in which they did in the past. Under other circumstances, effects can be causes. The point is that tampering with the market economy creates its own justification for more tampering, and on and on. When a state's tampering achieves global dimensions, we have empire, or something with a strong resemblance. That the script is often scored with a seemingly pro-market soundtrack ("globalization" and "free trade") changes no facts. It may be "capitalism" (I'll leave that issue for another day), but it's surely not the free market.