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Commercial War: George III to Present

By H.A. Scott Trask

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In the spring of 2002, Bush signed into law a witches-brew of protectionist legislation designed to stifle foreign trade in the name of free trade. In March, he imposed various tariffs ranging from 8 to 30 percent upon imported steel. In May, he signed a \$170 billion farm bill lavishing \$10 billion of annual subsidies upon America's already heavily subsidized corporate farms, and in the same month he slapped prohibitory tariffs on Canadian lumber. Bush's justifications for these measures are not new. On the contrary, they are as old as the republic. All that is new is the effrontery of an administration that practices protectionism while boasting of its commitment to free markets and free trade.



First, let us review the one area in which the Bush administration excels—hypocrisy. Since early in his presidency, Bush has asked Congress to give him the authority to negotiate unamendable trade treaties. He has vowed to use this so-called "trade promotion authority" to negotiate treaties opening foreign markets to American products and expanding worldwide free trade. In March 2002, he denounced the opponents of this "fast track" legislation as practitioners of "a new kind of protectionism" and implied that they were immoral; for free trade was a "moral imperative." Yet Bush has done nothing to reduce the massive export subsidies (e.g., Export-Import Bank programs, Foreign Sales Corporation tax rebates, or foreign military aid that is funneled back to U.S. defense contractors) that hinder free trade by subsidizing exporting firms at the expense of the taxpayer, nor has he reduced tariffs upon low-cost agricultural imports.

His justification for the Farm Bill has to be read to be believed. He actually claimed that it would "allow farmers and ranchers to plan and operate based on market realities, not government dictates." He also boasted that "it reduces government interference in the market and in farmers' and ranchers' planting decisions." There is more. "The farm bill supports our commitment to open trade, and complies with our obligations to the World Trade Organization." Every one of these claims was the precise opposite of the truth. The expanded subsidies of the Farm Bill represented a massive interference in the market designed to evade "market realities" and diminish foreign trade. Bush's support for steel tariffs was even more egregiously hypocritical, for just six years before, during the 1996 Republican primary, the Republican establishment, of which Bush is the creature, demonized Pat Buchanan for advocating just this kind of "protection" for domestic steel producers. In 1996, the Republicans claimed that Buchanan's steel tariffs would raise domestic prices, slow economic growth, and provoke retaliation. In 2002, with the votes of such crucial states as Ohio, West Virginia, and Pennsylvania at stake, they declared that steel tariffs were good for the economy.

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Bush's arguments for imposing steel tariffs restated three classic protectionist arguments as old as the republic. First, while conceding that free trade was the best policy, and assuring everyone that his administration was committed to it, he claimed that steel production was an *exception*. Even the World Trade Organization, he claimed, "recognizes that sometimes imports can cause such serious harm to domestic industries that temporary restraints are warranted. This is one of those times." James Madison, who has the false historical reputation of being a free trader, said the same thing 215 years ago during the first session of the House of Representatives, while advocating protective tariffs and discriminatory duties on foreign shipping. Of course, the congressman claimed to be "the friend of a very free system of commerce" who recognized that industry and commerce—*if left alone*—would be far more productive than if regulated "by the most enlightened legislature. Yet I concede that exceptions exist to this general rule." The historian William Graham Sumner commented: "He [Madison] was one of those who believe that a doctrine can be true and its application unwise." Sumner did not think that this accorded with reason or logic. "To say that a thing is true in theory but bad in practice is a radical absurdity."

Bush's announcement of steel tariffs included the repeated assurance that they would be only "temporary," lasting just long enough to allow domestic producers "to adapt to the large influx of foreign steel" and "restructure" their industry so "to adapt to changing economic circumstances." The president does not seem to be aware that such a rationale would apply to *every* kind of domestic manufacture that is not exclusive to this country, for they are all subject to "changing economic circumstances" and to a "large influx" of competing products when the latter is better or cheaper. Furthermore, the president's assurance of the temporary nature of the new tariffs is likely to go the way of previous promises made by the advocates of new government programs and regulations. In the experience of this country, *temporary* legislation usually means *permanent* legislation.

The First Congress enacted tariffs averaging 8.5 percent (in 1789), but they promised they were temporary and would expire in 1796. All that was temporary were the rates of that year. Congress raised duties again in 1790 and 1792, and by 1796 the promise of 1789 was forgotten. In the aftermath of the second war with England (1812–14), textile manufacturers and others lobbied Congress for the continuation of the high duties of the war. They argued that they needed time to adjust to the increased competition resulting from the resumption of peacetime commercial conditions and to the sudden influx of English goods. How could Congress reject such a reasonable request? No one wanted to see the new manufactories going out of business. Thus, Congress drew up legislation retaining 25 percent duties on foreign textiles until 1819, after which they were to fall to 20 percent. Sumner observed that the above argument, founded on an appeal to justice and a promise of temporality, was the only one that could have prevailed over the "natural tendency of the American people to freedom." Even so, "the tariff of 1816 was not carried against the instincts of the American people toward freedom without strong opposition. The great majority adhered to the old Jeffersonian doctrines and policy. They wanted to get rid of the army and navy, to reduce taxes and expenditures, to reduce the number of office-holders, and to 'let things alone.'"

Just two years later, under pressure from the already powerful New England manufacturing interest, Congress postponed the promised date of reduction from 1819 to 1826. In 1824, Congress passed a new tariff raising textile duties to 33 percent with no mention of 1826. During the 1820s, protectionists shifted to the "infant industries" argument. American industry needed to be protected from foreign competition during its "infant" stage of development, the implication being that after American industry had matured tariffs would no longer be needed. Congress raised duties even higher in 1828 (to a 44 percent average on dutiable imports). After nullification forced tariffs down after 1833, protectionists raised duties again in 1842.

Somehow American manufacturers never seemed to grow up. After a Democratic low tariff interlude (1846–1860), tariffs skyrocketed under Republican presidents, and the "infant industry" argument was never heard from again.

Bush's third argument for tariffs was the classic *we cannot practice free trade until our competitors do*. He claimed that protection was warranted because foreign governments were subsidizing their steel industries thus giving them an unfair advantage. According to the president, "50 years of foreign government intervention in the global steel market" has led to "excess global steel capacity" and falling prices, hence the need for government to raise the price of steel by imposing tariffs. Such an argument amounts to the doctrine that if country A is willing to sell a product to country B at a loss, country B should refuse the gift and smite itself by raising prices, thus diminishing the wealth and buying power of its citizens. Sumner reduced the essence of commercial warfare to "an effort to spite another by an injury done to one's self." He recognized that even if every other country in the world practiced protectionism, it was in the interest of the remaining country to practice free trade, for to do otherwise would be only to deprive itself of the advantage of buying inexpensive goods from overseas.

Bush explained that his steel tariffs were really not protectionist. Rather, they were part of his three-part initiative "to restore market forces to world steel markets." Bush was here reviving the long tradition of commercial war, in which *retaliatory* tariffs and sanctions are used as a weapon to lower foreign trade barriers. The idea is that the only way of opening closed or restricted foreign markets is by closing or restricting our own in retaliation. The foreign government will then see the error of its ways and drop its tariffs. A cynic might be forgiven for noting the parallel between waging wars to bring about world peace and imposing tariffs to advance free trade.

The great American political economist from the early nineteenth century, Condy Raguet (1784–1842) made the definitive argument against commercial retaliation in an 1842 essay in *Hunt's Merchants' Magazine*, titled "The Impolicy of Countervailing Duties." First, Raguet argued that countervailing duties violated the principle of national sovereignty. Each nation had an absolute right to order its own internal affairs, and no other nation had a right to coerce its people into changing their laws, no matter how wrongheaded those laws might be. Second, given the pride and obstinacy of human nature, retaliation was more likely to harden than soften the policy of the targeted nation. "Nations, like individuals, must be reasoned with rather than chastised. . . . If the offending nation be ignorant, or proud, or held in bondage by powerful interests which control its legislation (and what nation on earth is not one or the other?), so far from being driven from its ground by a countervailing duty, it would be more apt to make its restrictions tighter, by a retaliatory law." American protectionists had sometimes justified industrial tariffs by citing the British Corn Laws, which restricted the sale of American wheat to that island kingdom. Yet when the British repealed these laws in 1846, they did so in response not to the rising tide of American protectionism in the 1810s and 20s but to the liberalizing of American trade during the 1830s and 40s. Finally, Raguet brilliantly pointed out that the laying of retaliatory duties created "a new set of vested interests" dependent upon the protecting duties and motivated to lobby for their retention *even if they should accomplish their object of forcing down tariffs abroad*.

Part II: Commercial War During the Revolution and the Nineteenth Century

Bush has also waged the more severe form of commercial warfare (i.e. embargoes and sanctions) to force political change in foreign governments. He has continued the trade embargo with Cuba despite its 40-year failure to force a change in the Cuban government or unseat Castro, and he continued the crippling regime of economic sanctions against Iraq, despite its failure to oust Saddam. Bush may boast of his "compassion," but he has shown little toward the suffering caused in both countries by the sanction regimes continued by his administration. Such hard-edged commercial

warfare has rarely worked, always caused harm, including unforeseen negative side-effects, but that has not stopped the current administration from repeating the folly of its predecessors.

(Someone might interject here and cite the "success" of the sanction regime of the 1980s in overthrowing apartheid and Afrikaaner rule in the Republic of South Africa. There is no question that economic sanctions contributed to this result, but at what price? The South African economy has *never* recovered, the social order has collapsed, and the succeeding government has tempered its socialism with venality and corruption. Would it not have been better to allow internal reform, political evolution, and moral suasion combined with unfettered commerce to work change?)

In response to the Stamp Act of 1765, the merchants of the Atlantic cities signed nonimportation agreements. British merchants responded by successfully pressuring Parliament to repeal the stamp tax, which it did early the next year. In 1767, Parliament tried a second time to raise taxes on the colonists. They passed the so-called Townshend duties, and the colonies again responded by organizing a non-importation movement which by 1769 had reduced British imports by nearly half. Again, Parliament relented, repealing all but the tea duty in 1770. Here were two cases in which commercial war had been successful. This had the effect of persuading the Americans that their commerce was indispensable to the British and that by withholding it they could coerce that nation at will without resorting to arms. It became a kind of faith impervious to subsequent experience which demonstrated again and again that the power was limited, would provoke foreign powers instead of intimidating them, and would do equal or more damage to themselves than to the commercial enemy.

In October 1774, in retaliation for Parliament's Coercive Acts, the first Continental Congress passed the Continental Association, prohibiting the importation of British goods into the colonies after the first of December. This time it did not work. The British responded by retaliation and blockade. In March 1775, they passed the New England Restraining Act, forbidding those colonies from trading outside of Great Britain or the British West Indies, and in April they extended the ban to the five other colonies that had signed the Association, exempting only New York, North Carolina, and Georgia. Not only did the Association fail to coerce the British, it antagonized them, and it handicapped the resistance movement in three ways (all of which were discerned by Sumner in his brilliant history of the financing of the Revolution). First, it produced dissension among the colonists and between the colonies, many of whom rightly regarded the nonimportation agreement as ruinous to their business, and resented the coercive enforcement apparatus created by the Association. Second, it caused the Americans to waste their energy and effort in vain attempts to enforce its draconian provisions when more vital tasks were at hand, such as preparing for war. Third, in the words of Sumner, it had "the effect of tying the hands of the colonies in the most critical period of preparation. If they had been intending on going to war with Great Britain, they should have bought all they possibly could [from that country], especially clothing, shoes, hats, and, if possible, powder and arms. As the British manufactures of these goods were the best in the world, they were just the ones [from which] to buy." The result? When the war began in April 1775, the Americans were thoroughly unprepared to outfit an army, or even support their militias. Even before large-scale fighting broke out, the Americans were short of powder, muskets, and clothing for their troops.

The Association utterly failed. Its impact was softened as the British were able to find new markets for their goods and to surreptitiously continue some trade with their rebellious subjects. For their part, the Americans could not sustain the policy because it violated their own interests. From the beginning, the terms of the Association were evaded by merchants and sometimes by whole colonies. Smuggling was rampant, and British goods continued to find their way into the country. Sumner concluded that "the commercial war was an entire mistake. It pledged the colonists to abstain from doing

just what it was their greatest interest to do, and they no sooner began to put their resolution in practice than they were forced to act in direct contradiction to it." As the colonies were neither self-sufficient nor capable of carrying on the war by means of their own resources, they had to trade; and as many of the things they needed were readily available from England at reasonable prices, they had to trade for English goods. Throughout the war, the Americans acquired English blankets, woolens, needles, sail-cloth, arms, lead, flint, tin, medicine, surgeon's instruments, copper, salt, and other essential items without ever admitting they were doing so. Some of these goods were smuggled in through illicit trade with Bermuda and the Bahamas, but most were imported indirectly through Holland or the Dutch West India colony of St. Eustatius. Virginian Carter Braxton sensibly suggested in January 1779 that Congress reopen direct trade with England and her colonial possessions in order to more easily acquire the same goods at a cheaper price than they were now paying more to smuggle in or import through Holland he was denounced as being unpatriotic. Americans were loath to admit, even to themselves, that their commercial war was a failure even as in practice they had to acknowledge it. Sumner concluded, "No sooner had they established their system of commercial war than the exigencies of their situation drove them to carry on commerce for profit," even with the hated imperial foe.

According to Sumner, the Americans' faith in commercial war rested on a series of mercantilist fallacies that they had inherited from the colonial period—the notion that in international trade one country gains at the expense of another; that national trade was "a concrete entity" and an essential matter of state policy. Hence, the Americans believed they could dispose of their trade to gain political or economic advantage over other countries. They believed they could coerce England by withholding it, and win the support of France or Spain by offering it to them. Such notions were groundless. The truth was that "the trade of the colonies was only an aggregate name for a group of relations, each one of which was a relation between a buyer and a seller, who made an exchange with each other simply and solely for the mutual advantage of the individuals concerned." In practice, but not in theory, the Americans recognized this reality. When the mercantile system had impinged on their most profitable and useful trade, they resorted to smuggling; when the resistance leaders imposed non-importation and embargoes for political purposes, they were forced to acquiesce in their violation through the toleration of smuggling and the granting of special exemptions to favored merchants.

Two Other Instances of Failure: 1807–12 and 1861–65

Americans learned little from their experience of commercial warfare during the Revolution, or rather they chose to remember the success of nonimportation after the Stamp Act and forget the abysmal failure of the Association during seven years of war. One of the chief reasons cited for giving the new federal government the power to lay duties and regulate commerce was to empower it to practice commercial coercion to open foreign markets, and Madison in the first Congress called for discriminatory duties to force the British and Spanish to open their ports on equal terms to the Americans.

During the Napoleonic Wars, American merchants made huge profits in the carrying trade between Europe and the Americas, and American farmers enjoyed the bounty of high prices for their foodstuffs. However, American neutral shipping suffered grievous losses at the hands of the Royal Navy and French privateers. The former wanted to prevent the shipment of foodstuffs to the French-controlled Continent and the latter wanted to prevent the sale of English manufactured goods. Both were willing to tolerate the trade, but only as long as the shipments went through designated ports where they were heavily taxed. American merchants cried out for protection from the federal government even as they continued the risky but profitable trade. The Federalists wanted to expand the navy to protect the carrying trade, but Jefferson and the Republicans (fearful of the enormous expense and the high risk of war should they do so) flatly refused. The Old Republicans (John Randolph and his followers) argued that the federal government should do nothing except to authorize the arming of

private ships. Despite regular losses and high insurance rates, the northeastern merchants, as well as middle-state farmers and southern planters, were making a killing on the carrying trade. Jefferson, his southern blood up, instead opted for commercial war in the form of a total embargo on American trade with the world (no imports, no exports, and no voyages).

Jefferson termed his embargo (December 1807) a policy of "peaceable coercion." The idea was that by depriving the warring powers of American foodstuffs and the vital American mercantile carrying trade he could persuade them to respect American neutral shipping. He believed his policy would protect American shipping, expand commerce, increase mercantile and agricultural profits, all without having to build up a navy or waging a ruinous war. Sumner noted the immediate result. Under the embargo of 1807, "the shipowners were protected against foreign aggressors by being shut up at home. They had before incurred heavy risks, now their own government imposed certain ruin." The northern merchants and ship-owners howled in protest and immediately turned to smuggling to try to save themselves from commercial ruin. Jefferson responded by enacting increasingly stringent and tyrannical enforcement acts, deploying the federal navy and revenue cutters along the coast, and sealing the border with Canada with federal regiments, marshals, and militia. Nevertheless, smuggling continued. By early 1809, the New England states were on the brink of secession, and neither France nor England had changed their policy of seizing neutral commerce. Jefferson admitted failure and agreed to repeal the embargo. However, he substituted a nonintercourse act, forbidding trade with either power until they should cease their raids on American commerce. Madison continued this fruitless policy for three more years before he went to war with England over "free trade and sailor's rights." Madison's war failed to achieve any of its objectives (including the most important of all which was the conquest of Canada), but it did have the paradoxical effect of decimating American commerce and fostering the development of the very kind of large-scale factory manufacturing that both Jefferson and Madison deplored and the development of which they hoped could be deferred as long as possible.

The most calamitous and self-defeating experiment in commercial warfare was that put in place by the Southern Confederacy in 1861. Oblivious to the lessons of the Revolutionary War, Jefferson's Embargo, and the War of 1812, the Davis administration imposed an embargo on cotton exports on the theory that the English and French economies were so dependent on this staple that they would intervene in the war on behalf of the South. We know what happened. Although the British economy suffered early on, they soon found they could grow or expand cotton production in other areas of the empire, such as Egypt and India. If the Confederate states had pursued a policy of free trade they might have won their independence. They should have thrown open their ports to European shipping and merchandise free of all duties, and banned all paper currency. With gold or bills of exchange obtained from their cotton, tobacco, and rice exports, they could have purchased all the cannon, rifles, ammunition, shells, uniforms, boots, blankets, and foodstuffs to arm, clothe, and feed their troops. The French and British would then have had a compelling interest in breaking the northern blockade (which they rightfully regarded as illegal anyway) to continue what would have been an enormously profitable trade for them. Davis' decisions to finance the war with paper money and coerce Europe with an embargo were the policies of an economic and historical ignoramus and they doomed the Confederacy. With no means for paying for European arms and ammunition, they gave those powers no incentive to intervene.

What are the lessons of this history? Commercial freedom is the best policy in peace *and* war. Cooperation is more fruitful than coercion. And if one wants the friendship or assistance of others it is better to appeal to their interests instead of their fears. Above all, foreign trade should be as free and unrestricted as trade within a nation.

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