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FREE TRADE LEAGUE - NEWSLETTER No 7

Free Trade benefits all but advantages none.

The FREE TRADE AGE – successor to the SPACE AGE

The trillions now being spent on rescuing the banks and "stimulating" the economy make the billions spent on putting humans on the moon in six separate missions (a mere $24.5bn or even in today's money $150bn) look almost modest. US space spending took up 4% of the US national budget in the 1960s (it takes only 0.6% now) and the view now is that the major result was the discovery of just how beautiful (and fragile) our earth is.

This overlooks another key "discovery" – namely what can be achieved when some 20,000 highly-trained specialists work together, motivated by a single goal. But that was only possible because those at Houston had the back-up of a free society so that ultimately 400,000 were involved spread through 12,000 companies.

NASA came into existence at a moment in history when government (especially the US government) was widely trusted and in control. That moment has now passed. Now the influence of government almost everywhere is in decline. As a result a power vacuum is developing. Earlier ages saw the power of our rulers moderated by the church, by landowners, even by lawyers. Now the remnants of power are seen as resting with accountants and celebrity-dominated TV channels, with the remote European Commission and even remoter world organisations such as the IMF.

Our own belief is that this is dangerous and in part attributable to the reluctance of the leaders of either of the two main parties to say for what they stand. David Cameron, at the Churchill Centre & Churchill Museum dinner in October, described his own approach as being similar to that of Sir Winston Churchill post 1951. Margaret Thatcher was present and received an Award but did not speak. Had she done so we feel sure she would have said that " a more of the same policy, but slightly this way or that way" would not be good enough.

By now it must be plain to all that the UK "business plan" of the past few years has failed. The false growth in GDP based on a housing boom is being seen as a mirage and sterling is wilting. Yet all of us have been so subtly inculcated for years with Marxist thought that it is hard for many to conceive that it is not Labour (nor Capital) but Trade that creates wealth. The FTL's belief is that publicly adopting a unilateral Free Trade policy is the answer for the UK. To the political parties focussed on winning marginal votes this may seems quixotic. After all Tariff revenue is tiny compared with income tax.

What these politicians fail to understand is that protectionism has many disguises. And all serve to impede trade which is the only creator of wealth (since all goods are worthless unless they can be sold). And the only way to alleviate poverty is to increase national wealth. Moreover, the continued existence of the UK as a global open market will set a benchmark that others cannot long ignore. In spite of its EU membership the UK remains by far the world's most open market and is suited to this role by time zone and geography.

It is an advantage we posses yet fail to appreciate. And even more important fail to publicise. We remain the world's one true "Free Trade Nation", both in personal and administrative attitudes. Far from feeling that the recent financial crisis means the "market economy" concept has failed, the FTL believes it will become the dominant feature of the 21st century. Free Trade's progress will be comparable in its own way to the Space Age achievements of the second half of the 20th century not least because the internet and the mobile phone have opened up new opportunities for international trade. Moreover. if we do not "get there first" (we are already most of the way there but fail to appreciate it) then some other nation will steal our ball. Use it or lose it.

THE FTL AND THE WTO

Back in 1995 GATT (General Agreement on Tariffs) was replaced by the WTO (World Trade Organisation). The WTO's stated aim is to promote free trade. Critics say that for the poorer countries this does not work and that it is dismantling hard won "protection" for local interests. The environmentalist lobby in particular has attacked the WTO. To its credit the WTO takes note of all criticism and also tackles difficult areas, such as piracy of "intellectual property" The FTL does not set out to criticise the work of the WTO. However, we do consider its "most favoured nation" provision, requiring all WTO member countries to treat each other equally and to treat all corporations from these countries equally, does have a touch of "protectionism" for multinationals about it.

The WTO rules in effect prohibit developing countries from creating local laws (which many developed countries used in earlier years) to develop "key" industries) so that they can protect their local industries "until such time as it can be internationally competitive. "Where the FTL differs from the WTO in this respect is that our case is only that Free Trade is the right policy for the UK – unilateral Free Trade and not one achieved by the tricky path of multilateral negotiation. Multilateral agreements may sound sensible but we consider they only leave some out in the cold, causing jealous and envy while advantaging others unfairly.

THE "FAIR TRADE" DELUSION

Michael Turner writes: Fair Trade seems to be a popu cause in both schools and churches, yet there are few signs of people giving the subject any real consideration. The assumption is that buyers of goods have a moral duty to pay over and above the free mark price in order to help poor producers stay in busin The plea is that their cost of production exceeds the price received. Is such a policy sound?

One cause is that there are state subsidies in produc countries, as well as official policies in importing countries. These effectively favour large producers smaller ones. Would it not be better to direct our e to reducing such subsidies or terms of trade rather compensating for the consequences?

Perhaps some smallholders, and other business are inherently unprofitable, and one must consider wheth to allow them to expire naturally rather than grind against hopeless odds. Maybe it is a tough but necessary course to give up a traditional activity a find a new one that is genuinely remunerative. A fur consideration is that traffic in anything at above f market prices only serves to reduce demand.

DEBATE: Our chairman Sir Teddy Taylor will be in Cambridge for a debate on Free Trade versus Fair Trade organised by East Anglian University on Wednesday November 4 at 5 pm. This is at the David Building lecture Hall, Eastwood campus, East Road. Anyone in the area who can provide him support will be welcome.

SHOE SHINE

One of the battles now raging within the WTO membership is over the issue of compulsory labelling of country of origin. The Italian and Spanish makers see this label as an emblem of quality. But the emergent countries are keen to avoid it. No doubt also are the sports shoe firms such as Nike, which sources supply in low cost countries such as Vietnam. In 2006 the EC imposed a 16.5% duty on Chinese shoes and 10% on those from Vietnam as "Anti-dumping" measures following a near tenfold increase in their imports in the previous five years and a drop of one third in the price.

Now those special EC duties are again up for extension with the Northern countries favouring ending this penalisation while the Italians and French protest that a thousand EU footwear manufacturers have gone out of business due to the imports. What they forget is that this would have happened anyway with the rise in price of leather and drop in popularity of shoes made from it as other version such as Crocs came along. The shoe business is a remarkable one. It is possible to fashion shoes from almost anything (old tyres, wood and of course plastic). But the wise learn to value their all leather shoes. The cobblers cry should be: "Protect your feet with leather, not our industry with tariffs."

VIDEO

On Andrew Marr's Short History of Britain on BBC2 this past week there was a mention of Tariff Reform and Chamberlain, rather less mention of Free Trade and a short clip from a "Fair Trade" video. The lack of Free Trade "footage" for TV is something that concerns us so we have attempted to produce a Free Trade video, aimed at students. The emphasis is on shipping as this provides a pictorial basis. Should any members wish to have a copy of the video in its current preparatory format it is available at a price of £10.

COBDEN'S FRIENDS

FTL member Peter Wright in Newcastle is busy researching the lives and careers of some of the staunchest disciples of Richard Cobden, the man whose eloquence advocacy of the Free Trade cause finally persuaded Sir Robert Peel to support the repeal of the Corn Laws in 1846. One was Thomas Briggs who after the Corn Laws were repealed set up the Free Trade League to campaign for the removal of the other taxes on food so as to establish what he called the "Free Trade breakfast table." He lived in a magnificent house at Alleyn's Park in Dulwich and when he died in 1892 there was talk of a statute being erected in his memory.

Another friend of and supporter of Cobden was Samuel Plimsoll MP and in her recent biography telling of his campaign to stop "coffin ships" by establishing a mark to show their maximum load Nicolette Jones mentions. Sadly a trunkload of correspondence between the two was destroyed during the war. Sam's London house was close to where Cobden' statute stands outside Mornington Crescent underground station stands. Every year in June the FTL places a garland on it to mark his birthday. Sam's own statue is by the Thames on the Victoria Embankment.

THE DEATH OF "OLD" ECONOMICS

The case for Free Trade is so obvious that we have long been puzzled why it received so little public acknowledgement. So we are grateful to Times economics writer Anatole Kaletsy for his contribution towards explaining this (Oct 28 2009) in an article headed "Three cheers for the death of old economics." The "old economics" to which he referred were those that have been in vogue over the past two decades – and in particular the focus on mathematics, known as econometrics.

This uses assumptions about human behaviour that could be expressed in algebraic formulae. These assumptions in turn are based on the twin ideas of "rational expectations" (humans would do what served their own self interest) and "efficient markets" (the idea that at any one time the market would always possess enough knowledge to fix the right price for that moment). But the crash of 2008 sent the whole edifice tumbling down and exposed the mathematical approach to economics as "an emperor with no clothes."

This has left some, including Nobel laureate economists, saying the whole basis of economic thinking now needs to be reinvented while others dig in their heels and say that if reality is making nonsense of their economic models then it is time to change reality. Kaletsky points out that Adam Smith (seen by many as the founder of the study of economics) and his modern disciple Frederick Hayek produced no mathematical models and made no econometric-based forecasts. Yet their brand of original thinking would today get no where in the face of what Kaletsky calls "the intellectual monopoly of orthodox academic funding bodies." Much of this funding of course comes from you and I as taxpayers.

FTL AGM:

Wednesday January 6 at 6am at IEA, SW1. But if attending please phone to check date and location.

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FREE GIFTS FOR ALL

"When products such as coal, iron, corn or textile fabrics are sent us from abroad, and we can acquire them for less labour than if we made them ourselves, the difference is a free gift conferred upon us." So wrote Frederic Bastiat in France in the 1840s, inspired in part by Cobden. We are grateful to the Ludwig von Mises Institute in Auburn, Alabama for republishing his essays.

Bastiat is most famous for his satirical petition to the French Chamber of Deputies on behalf of the "Manufactures of Candles, Waxlights, Lamps, Candlelights, Street Lamps, Snuffers, Extinguishers and the Producers of Oil, Tallow, Resin, Alcohol and generally, of everything connected with lighting." This complained that they were suffering from the intolerable competition of a foreign rival – the sun.

It prayed for a law to order the shutting up of all windows through which it might shine as well as all holes, chinks or fissures and also the installation of curtains, shutters and blinds to meet the unequal competition. In the petition Bastiat even managed to invoke anti-English feeling by suggestion that the sun's work was abetted by perfidious Albion "in as much as he displays towards that haughty island a circumspection which he dispense in our case."

Bastiat's satire would surely be of use today as we are confronted with plans to tackle "global warming" by putting carbon taxes on industry. Our puny efforts to stay the course of nature are unlikely to have any more success than Bastiat's petition. But as a successful "job creation" project the whole climate change business is hard to beat. Pity it will end up further handicapping UK industry.

"Taxes are an evil – a necessary evil, but still an evil, and the fewer we have of them the better."
Winston Churchill, House of Commons, 12 February 1906.