Autarky and its Consequences

I
Terminological Remarks

There is considerable ambiguity concerning the terminology to be used in dealing with the problems of international economic relations. It seems therefore expedient to start with a clear definition of some terms.

Chauvinism is the overvaluation of one's own nation's achievements and qualities and the disparagement of the other nations. As such it does not result in any political action.

Patriotism is the zeal for one's own nation's welfare, flowering, and freedom. But the patriots disagree with regard to the means to be applied for the attainment of this end.

The free traders (liberals in the old sense attached to the term liberalism, today mostly disparaged by the self-styled "progressives" as orthodox, reactionaries or economic royalists, as Manchestermen\(^1\) or as supporters of laissez faire) want to make their own nation prosperous by free trade and by its peaceful incorporation into the world-embracing commonwealth of the international division of labor. They recommend free trade not for the sake of other nations, but from the viewpoint of the rightly understood or long-term interests of their

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\(^{1}\) [The Manchestermen, along with the British liberals of the nineteenth century, thought that the best way to insure peace was by an unlimited laissez-faire economy. Free trade was both domestically and internationally a necessary prerequisite to preserve a lasting peace—Ed.]
own nation. They are convinced that even if all other nations cling to protection, a nation best serves its own welfare by free trade.

The nationalists, on the contrary, believe that a nation cannot further its own well-being but by inflicting harm upon other nations. Aggressive or militaristic nationalism aims at conquest and at the subjugation of other nations by arms. Economic nationalism aims at furthering the well-being of one's own nation or of some of its groups through inflicting harm upon foreigners by economic measures, for instance: trade and migration barriers, expropriation of foreign investments, repudiation of foreign debts, currency devaluation, and foreign exchange control.

Economic nationalism results in war if some nations believe that they are powerful enough to brush away, by military action, the measures of foreign countries which they consider as detrimental to their own interests.

The free traders want to make peace durable by the elimination of the root causes of conflict. If everybody is free to live and to work where he wants; if there are no barriers for the mobility of labor, capital, and commodities; and if the administration, the laws, and the courts do not discriminate between citizens and foreigners, the individual citizens are not interested in the question where the political frontiers are drawn and whether their own country is bigger or smaller. They cannot derive any profit from the conquest of a province. In such an ideal—Jeffersonian—world of democracy and free trade war does not pay.

The nationalists, on the contrary, assert that peace itself is an evil and that war is, as the English writer John Ruskin said, "the foundation of the arts and of all the high virtues and faculties of man." Consequently the Nazis considered it as the most desirable state for a nation "to be always at war," and Mussolini exalted "the dangerous life." The Japanese clung to the same tenets.

Pacifism is the belief that all that is required for the abolition of war is the building up of an international organization and the establishment of an international world court whose rulings should be enforced by a world police force.

The noble-minded founders of the League of Nations were guided by this type of pacifism. They were right in their idea that autocratic governments are warlike, while democratic nations cannot derive any profit from conquest and therefore clinging to peace. But what President Wilson and his collaborators did not see was that this is valid only within a system of private ownership of the means of production, free
enterprise, and unhampered market economy. Where there is no economic freedom things are entirely different. In our age of statism and socialism, in which every nation is eager to insulate itself and to strive toward autarky it is quite wrong to assert that no man can derive any gain from conquest. Every citizen has a material interest in the nullification of measures by which foreign governments injure his economic interests.

Autarky or economic self-sufficiency is a state of affairs where there is no foreign trade at all; every nation consumes only goods produced within its own borders. No contemporary nation is ready to admit openly that it strives toward autarky. But as every nation is anxious to restrict imports and as exports must needs fall concomitantly, we can characterize the economic policies of the last decade preceding the present war as autarkic.

II
The Rise of Modern Protectionism

In the sixties of the nineteenth century, public opinion was almost unanimous in the assumption that the world was on the eve of an age of everlasting free trade and peace. True, there was only one big nation which had unconditionally espoused the principle of free trade: Great Britain. But there seemed to prevail a general tendency all over Europe toward a step-by-step abolition of trade barriers. Every new commercial treaty between civilized and politically advanced nations brought a reduction in tariffs and included the most favored nation clause. The teachings of Ricardo and John Stuart Mill, of Cobden and Bastiat, met with general approval. People were optimistic enough to expect that trade barriers and war were doomed to disappear with other remnants of the dark ages like despotism, intolerance, slavery and serfdom, superstition, and torture.

However, the greater part of the world still had tariffs. There were two groups of protectionist countries.

There were, on the one hand, the countries of the European continent which had long since embarked upon a Mercantilist policy of protection. People were convinced that these nations would soon learn that protectionism does not further but seriously checks their own material well-being and would turn to free trade.

[The seventeenth-century Mercantilists thought that hoarding precious metals was the best way to accumulate wealth. They advocated political intervention in foreign trade to increase exports—to bring money (metals) into the country—while hampering imports. They called this form of hoarding a favorable balance of payments—Ed.]
There were, on the other hand, the former colonies, the countries peopled by the descendants of European settlers. These countries had in earlier days considered import duties as the most expedient means for taxing their citizens. Their tariffs had originally only fiscal purposes. With the progressive evolution of economic civilization and the increase of population figures these tariffs changed their character and provided ample protection to the growing domestic industries. In the middle of the nineteenth century they were, especially in the United States, already more effective in this regard than those of the then most protectionist European powers, Austria and Russia. However, the optimists hoped that at least the United States would outgrow what they qualified as the remnants of its colonial past.

The optimists were entirely wrong. The protectionist nations did not abandon protection, but raised their tariffs; furthermore, the free trade countries themselves turned toward protection. Great Britain and Switzerland, once the champions of free trade, are today fanatically devoted to the most radical methods of economic nationalism.

III
Remarks on the Theory of Foreign Trade

The return to protectionism, the progressive aggravation of trade restrictions through the multiplication of import duties and through the application of new methods for prevention of imports, and the evolution of the tariff system into a system under which all kinds of commercial transactions with foreigners (even tourism, the consultation of foreign doctors and education at foreign schools) require a special license on the part of the authorities—all these are not the outcome of a change in the theory of foreign trade. The desperate attempts of the advocates of protection to refute the statements of the classical economists concerning the consequences of free trade and protection failed lamentably. All they could demonstrate was that under special conditions the interests of some groups of the population can derive temporary benefits from protection. But the economists have never denied this. What they asserted was:

1. If protection is granted to one branch of production or to a few branches only, those privileged are benefited at the expense of the rest of the nation.

2. If protection is granted to the same extent to all branches of domestic production ("lückenloser Schutz der nationalen Arbeit," as the Germans call it), nobody can possibly derive any net profit. What a man profits on the one hand qua producer, he loses on the other
hand qua consumer. Moreover, everybody is hurt by the fact that production is diverted from those lines in which its physical productivity is highest; all nations and every individual are injured by the fact that less favorable conditions of production are exploited, while some more favorable remain unused.

3. It is vain to try to "improve" the balance of trade by import restrictions. But for capital transactions (foreign investments and foreign loans and the payments resulting therefrom), gifts and tributes, the total value of the commodities sold and the services rendered to foreigners exactly equals the value of the goods and services received.

4. The advantage derived from foreign trade lies entirely in importing. The exports are only the payment for the imports. If it were possible to import without exporting at all, the importing country would not suffer, but enjoy prosperity.

It has been asserted again and again that conditions have changed since the days of Ricardo and that his conclusions are no longer valid under present conditions. This, however, is a fallacy too.

Ricardo assumes that there is no mobility of capital and labor, but that on the other hand there is some mobility for commodities. (If there is no mobility at all for commodities either, then every nation lives in perfect autarky and there is no question of any foreign trade.) The conditions assumed by Ricardo changed in the course of the nineteenth century. Millions of workers emigrated from the comparatively overpopulated countries and immigrated into the comparatively underpopulated countries offering more favorable conditions for labor and consequently higher wage rates. Today things have changed and the state of affairs is by and large the same as in the time of Ricardo. Migration is almost impossible. The international capital market is disintegrated. The capitalists shun foreign investment because discriminatory taxation, expropriation and confiscation, foreign exchange control and repudiation of debts make them too risky. The governments of those countries whose capitalists could consider foreign investment are ready to put an embargo upon capital export because they view it as contrary to the interests of the most influential domestic pressure groups, labor, and farming.

In a world of perfect mobility of capital, labor, and products there prevails a tendency toward an equalization of the material conditions of all countries. Those parts of the earth's surface which offer more favorable natural conditions of production attract more capital and men than those offering less propitious ones. There are areas more
densely populated and areas less densely populated. Freedom of migration and capital transfer tend to make the difference of comparative overpopulation and comparative underpopulation disappear. They tend toward an equalization of wage rates and rates of interest and concomitantly of standards of living.

In a world of immobility of men some countries are comparatively overpopulated, others comparatively underpopulated. There are conspicuous differences in wage rates and in standards of living. The restrictions imposed upon the mobility of capital intensify this outcome.

Ricardo has demonstrated what the consequences of free trade in such a world are. His law of comparative cost has never been disproved. Even if all other countries cling to protection, every nation best serves its own interests by free trade.

**IV**

**Big Business and Protection**

For the self-styled “progressives” big business is the scape-goat for all evils. The selfish class interests of the capitalists and entrepreneurs, they say, have pushed the nations toward hyper-protectionism. Modern nationalism is but the ideological disguise of the class interests of the exploiters.

However, big business is not afraid of foreign competition. The American motor car producers and the German electric companies do not fear that any foreign competitor could supersede them on their domestic market. Neither do they ask for protective duties in those foreign countries into which they want to export, indeed their interests are considerably hurt by the import duties of these countries. If they are not ready to lose these markets, they are forced to build subsidiary plants in protected countries and to produce at a higher cost. Instead of supplying the consumers with merchandise manufactured in big scale plants located at the sites offering the most advantageous opportunities, they are compelled to produce a good deal of their output in smaller plants located in less appropriate places. But for protectionism it would never have occurred to Mr. Ford to fabricate cars in Canada, in France, in Germany, and in some other countries. The characteristic feature of present-day big business is that the enterprises own subsidiaries in many countries. They are not interested in the continuation of production of the subsidiaries.

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3[The reader should keep in mind that these passages were written in 1943—Ed.]
They would, in the absence of protection, concentrate their whole production in those plants in which costs are lowest.

If it were true that big business is favored by protection, there would be no protection in this age of violent anti-capitalism. It can hardly be denied that the general trend of the economic policies of all countries in the last decades was to inflict as much harm as possible on big business.

The present structure of business and the location and the size of the single plants are adjusted to the conditions brought about by protectionism. A transition to free trade would cause a general reshuffling, as many plants are now located in places where production costs are so high that they cannot, when unprotected, compete with industries operating in places offering more propitious opportunities. The vested interests of many enterprises are therefore opposed to free trade. But this is not the cause of protection, it is rather its outcome. If there had not been any protection at all, the capitalists would not have invested their funds in places in which profit can only be expected under protection.

While some enterprises are menaced by free trade, the interests of the bulk of industry and of the whole nation are not. On the contrary! Everybody would be benefited, if production were discontinued where the physical input needed for the attainment of one unit of output is higher, and were to expand where the input required is lower.

Under free trade for products and capital and under 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.

American processing industries do not need any protection. They are, but for some special branches, like Paris dressmaking and 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 the designers, and the skill of the workers are unsurpassed. The technical equipment of the
plants and the methods of business management are unparalleled.

The main argument advanced in favor of American protectionism is the wage rate argument. The American standard of living, people say, has to be protected against the "dumping" of industries producing at lower labor costs.

Real wages are higher in this country than in almost all other countries because America is comparatively underpopulated, while most of the other countries are comparatively overpopulated. As immigration is restricted, there does not prevail a tendency toward an equalization of wage rates. In those countries in which physical conditions of production are less favorable than in America, wage rates must needs be lower. There would be but one means to raise the extremely low standard of living in China: to let the Chinese freely emigrate to countries in which natural conditions of production are more favorable, capital is more abundant, and population is comparatively less dense.

The comparatively high state of market real wage rates, i.e., wage rates as they would be in the absence of any trade union pressure and compulsion, in this country is not an outcome of protectionism and does not need to be safeguarded by tariffs. The abolition of protection would not lower the American standard of living, but raise it. American processing industries would concentrate their efforts upon those branches in which their superiority is highest. Their products would buy on the world market a greater amount of those products whose production would be discontinued in this country because American superiority is lower in those fields. The total amount of American consumption would increase, not decrease.

Money wage rates may drop. But they would drop less than the prices of consumers' goods, now artificially raised by protection.

V

Protection and Defense

It has been asserted that the nations strive after autarky because they are warlike and want to be independent of foreign supply.

The truth is that Germany strove after autarky and therefore wanted to conquer more Lebensraum, i.e., a territory so large and so rich in natural resources that the Germans would live in economic self-sufficiency at a standard not lower than that of any other nation.

Moreover, economic nationalism is not a phenomenon peculiar to aggressive nations. Peace-loving nations are no less imbued by the spirit of economic nationalism than militaristic peoples.
It may be reasonable to explain the protection (operated by a government wheat monopoly) which Switzerland grants to its domestic wheat production as a defense measure. But it is impossible to apply the same explanation to the Swiss import restrictions upon china, glassware, and silver plates. The country applies the quota system to passenger cars although there is no domestic production and no hope that such a production could be bolstered up!

VI

Protection and Government Control of Business

A nation’s policy forms an integral whole. Foreign policy and domestic policy are closely linked together, they are but one system. Economic nationalism is the corollary of the present-day domestic policies of government interference with business and of national planning as free trade was the complement of domestic economic freedom. There can be protectionism in a country with domestic free trade, but where there is no domestic free trade, protectionism is indispensable. A national government’s might is limited to the territory subject to its sovereignty. It does not have the power to interfere directly with conditions abroad. Where there is free trade, foreign competition would in the short run already 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 the foreign markets, there can be no question of government control. The farther a nation goes on the way toward public regulation and regimentation, the more it is pushed toward economic isolation.

We do not have to deal with the problem whether economic interventionism, i.e., government interference with business, can attain the ends aimed at by the government and by the “progressives” who endorse this system. Its champions—the German “Sozialpolitiiker,” the right wing of the British Fabians, the American Institutionalists, the moderates among the New Dealers and many other groups—have contended that interventionism is feasible and workable as a permanent form of social economic organization. They have claimed that it is as far from socialism as it is from capitalism, that it stands as a third solution of the problem of society’s economic organization midway between communism and laissez faire, and that while retaining the advantages of both it avoids the disadvantages inherent in both of them. However, modern economic theory has demonstrated in an irrefutable way that this alleged third method is contrary to purpose, and that the various measures of government interference with business not only do not attain the ends sought but,
on the contrary, must needs result in a state of affairs which—from the viewpoint of the government and the supporters of its policy—is even much more unsatisfactory than the conditions which they wanted to alter.

Neither do we have to deal with the lessons to be learned from historical experience. For more than sixty years all governments of civilized nations have experimented with various modes of economic interventionism. The outcome was always the same: manifest failure. The Sozialpolitik of the German Reich, inaugurated at the end of the seventies of the nineteenth century and solemnly publicized by the old Kaiser's imperial message of November 17, 1881, and the American New Deal are the outstanding examples.

From the viewpoint of the subject with which this paper deals we have to stress another point. Every act of government interference with business raises the domestic costs of production and thus disarranges the conditions for competition. Under free trade it would immediately result in a drop of sales on the part of domestic producers, in restriction of output and in discharging of workers. People would quickly realize that the system of interventionism does not work and that it causes unemployment and bad business. They would ask for a return to the conditions prevailing before the government interfered, i.e., for repeal of the detrimental measure.

But things are different if there is protection preventing foreign business from competing on the domestic market or at least rendering such competition more expensive. Then the domestic entrepreneur can react to the increase of costs through raising prices. The government and the supporters of its policy triumph; they are convinced that their methods of improving the material well-being of the workers have succeeded. What they do not see is that the public has to pay the bill and that the workers are burdened with higher prices. The same is valid with regard to wage raises brought about by the trade union compulsion and pressure. Wage rates on the unhampered labor market are higher in the United States than—with the exception of New Zealand—in any other country. Natural conditions of labor are more favorable, and capital is more abundant in this country; on the other hand immigration is restricted. If the American trade unions try to raise wage rates above this market level—a high level indeed, when compared with that of the rest of the world—the same problems

\[This scheme was the blueprint of modern state welfare. Its aims were to increase the income of the average worker to gain a better standard of living. This was obtained through political intervention and legislation favoring the working man. Labor unions thrived during this time, and social security was instituted for the first time—Ed.\]
present themselves. The immediate manifest failure of the trade union methods can only be avoided by a rise of prices which requires protection.

If there were free trade in United States, prices—due allowance being made for transportation costs—could not rise above world market levels. An employer whom the unions have forced to pay wages higher than his business can afford would have to restrict output and to discharge workers.

If the industry concerned exports a part of its products, it is in a special position. It is not free to raise the prices of the exported commodities. But protectionism provides another way out. The domestic producers form a cartel, charge monopoly prices on the domestic market and compensate for the losses incurred in selling abroad at low prices by a part of the monopoly profit. This was especially the case with Germany. Germany, which is forced to export a great part of its manufactures, was, from the end of the seventies of the nineteenth century to the outbreak of the First World War, far ahead of all other nations in matters of Sozialpolitik and trade unionism. Its much admired and glorified system of Arbeiterschutz, social insurance and collective bargaining, could work only because German industries, sheltered by all-round protection, built up cartels and sold on the world market much more cheaply than at home. The alleged success of the "soziales Königstum der Hohenzollern" and of the German Social Democrat party was apparent. In their capacity as consumers, the workers themselves had to bear the burden. Cartel and monopoly were necessary complements of German interventionism.

Popular legends have misrepresented the fact. They teach that the trend toward monopoly is inherent in capitalism. The German champions of government control of business have repeated again and again that private enterprise, if left free and not restrained by government control, must result in monopolization and that this inextricable tendency makes nationalization of business necessary. They passed over in silence the fact that cartelization was only possible because government and parliament had decreed import duties; that the law itself ordered the entrepreneurs to form a cartel if they refused to so do of their own accord, as was, for instance, the case with potash; that the Prussian government itself in its capacity as owner and operator of coal mines joined the coal cartel.

It is a characteristic feature of present-day governments and political parties that they promise in the same breath low prices to the consumers and high prices to the producers. But as it is beyond
the power of any government to make prices lower than they would be on the competitive market unhampered by government interference, what results is always only a policy of raising prices. The governments pretend to fight monopoly, but they never take recourse to the measure which would render vain in most of the branches of industry all attempts to bolster up a monopoly, namely the abolition of import duties.

That the governments and the parliaments favor monopoly prices is clearly evidenced by their actions with regard to international monopolistic schemes. If the protective tariffs result in the formation of national cartels in various countries, international cartelization can in many cases be attained by mutual agreements between the national cartels. Such agreements are often very well served by another pro-monopoly activity of governments, the patents and other privileges granted to new inventions. However, where technical obstacles prevent the construction of a national cartel—as is almost always the case with agricultural production—no such international agreements can be built up. Then the governments interfere again. The history between the two world wars is an open record of state intervention to foster restriction and monopoly by international conventions. There were schemes for wheat pools, rubber, tin and sugar restrictions and so on. Of course most of them collapsed soon. But this failure was rather an outcome of government inefficiency than of government preference for competitive business.

We have to realize that even protectionism cannot make government interference with business work and achieve the ends sought. All that it can bring about is to delay for a shorter or longer time the appearance of the undesired consequences of interventionism. Its failure must finally become manifest. The schemes to raise by decree or by trade union pressure the income of the wage earners above the height fixed by the unhampered market must necessarily sooner or later result in mass unemployment prolonged year after year; protection can only postpone this effect, but does not brush it away. But it is exactly this temporary adjournment which the supporters of interventionism aim at. It disguises the futility and ineptitude of their cherished policies. If the detrimental effects of their measures were to appear immediately, the public would more quickly understand their vanity. But as they are delayed, the champions of government control and trade unionism have in the meantime the opportunity to boast that the employers were wrong in predicting that the artificially raised wage rates and the burdens imposed upon business by discriminatory taxation and by labor legislation would make their plants unprofitable and hamper production.
Economic nationalism is the necessary complement of the endeavors to interfere with domestic business conditions.

VII

Protectionism on the Part of Creditor Nations

The tariff barriers against imports are especially nonsensical when erected by creditor nations. If the debtor nations in accordance with the terms stipulated pay interest and repay the principal of the debts and if they do not hinder the foreign investors taking out the business profits earned, their balance of trade must show an excess over imports, i.e., become favorable. Concomitantly the balance of trade of the creditor nations becomes unfavorable. The terms "favorable" and "unfavorable" are, of course, misleading. It is not unfavorable to be a rich nation and to receive large payments of interest, dividends, and profits from abroad. Great Britain was in the past century the world's richest nation, not although, but because it had a very "unfavorable" balance of trade.

The United States, in the years of its glorious geographic and economic expansion, had offered very propitious investment opportunities for foreign capital. The capitalists of Western Europe provided a part of the capital needed for the construction of American railroads and for the building up of American mining and American processing industries. Then later the Americans began to repatriate the stocks and bonds owned by foreigners; these operations made the nation's balance of trade active. With the First World War things changed. America became a creditor nation, the greatest capital exporting nation. Its favorable balance of trade—in the years 1916 to 1940 the excess of exports over imports was about 30 billion dollars—had now another significance; it was the outcome of the loans granted abroad and of investments in foreign countries.

But at the same time American tariff policy made the payment of interest and the transfer of dividends more burdensome to the debtor nations. The same policy was applied by the other creditor nations, for instance Great Britain, France, the Netherlands, Belgium, and Switzerland. The debtor nations were, it is true, not very enthusiastic about the payments they had to make; debtors mostly are not very anxious to keep to the terms of the contract. But the conduct of the creditor nations, which sensibly prejudiced their interests, provided them with an opportune pretext for refusal to pay. They took recourse to currency devaluation, foreign exchange control, moratoriums and some of them even to open repudiation and bankruptcy.
The policy of the creditor nations was especially paradoxical in the case of the German reparations and the inter-allied debts. If Germany had really paid reparations out of her own funds—and not out of foreign, mostly American credits granted to her—these payments would have rendered necessarily the receiving countries’ balance of trade “unfavorable”; their imports would have exceeded their exports because they collected reparations. But this effect appeared, from the viewpoint of mercantilist fallacies, as a tremendous mischief. The Allies were at the same time anxious to make Germany pay and not to get the payments. They simply did not know what they wanted. But the Germans knew very well what they themselves aimed at. They did not wish to pay. They succeeded.

The same holds true with regard to the inter-Allied debts.

VIII
Totalitarianism and Autarky

Ferdinand Lassalle, the founder of the German Social Democrat Party and the eloquent champion of government control of business, is credited with the dictum: “The State is God.” Eminent scholars, for instance Ambassador Carlton Hayes, call nationalism a new religion, the creed of our day.

People distinguish between the parties of the Left and the parties of the Right. The former, they say, are the “progressives,” the supporters of government control of business, the socialists and the communists; the latter the “reactionaries,” the nationalists. This classification is spurious. The socio-economic tenets of both groups differ only in minor points. They both aim at full government control of business. It is difficult to decide to which of these two totalitarian groups the most eminent intellectual harbingers of present-day “unorthodoxy” are to be assigned. There is no doubt that Lassalle was also the forerunner of German National Socialism and the first German who aimed at the Führer position. The Frenchman Georges Sorel, the advocate of the “action directe,” i.e., violent trade union activities and general strike, was the preceptor both of Lenin and Mussolini. The socio-economic program of Italian Fascism, the stato corporativo, is an exact replica of the schemes of British Guild Socialism; its most lucid exposition is the book of the English Fabians and enthusiastic pro-Soviet writers, Sidney and Beatrice Webb: A Constitution for a Socialist Commonwealth of Great Britain (1920). Not only Mussolini, but many outstanding French collaborationists and German Nazis (for instance, Werner Sombart) were Marxian readers before they turned to the “Right.”
The truth is that modern nationalism is a corollary of the domestic policy of government control of business. It has been demonstrated that government control of business would manifestly fail already in the short run if the country is not isolated from the rest of the world. A government aiming at full regimentation of business must aim at autarky too. Every kind of international economic relations impairs its power to interfere with domestic business and limits the exercise of its sovereignty. The state cannot pretend to be an omnipotent god if it has to bother about its citizens’ ability to compete with foreign business. The outcome of government interference with business is totalitarianism, and totalitarianism requires economic self-sufficiency.

The same is valid with regard to self-proclaimed socialist states, that is states which have openly nationalized all economic enterprises and boast of this achievement. Socialism, when not operated on a world scale, is imperfect, if the socialist country depends on imports from abroad and therefore still has to produce commodities for sale on a market. It does not matter whether these foreign countries to which it has to sell and from which it has to buy are socialist or not. Socialism must always aim at autarky.

Protectionism and autarky mean discrimination against foreign labor and capital. They not only lower the productivity of human effort and thereby the standard of living for all nations; they create moreover international conflict.

There are nations which for lack of adequate resources cannot feed and clothe their population out of domestic resources. These nations cannot aim at autarky, but by embarking upon a policy of conquest. With them bellicosity and lust of aggression are the outcome of their adherence to the principles of government control of business. This was the case with Germany, Italy, and Japan. They said that they wanted to get a fair share of the earth’s resources, thus they aimed at a new distribution of the areas producing raw materials. But these other countries were not empty; their inhabitants were not prepared to consider themselves as an appurtenance of their mines and plantations. They did not long for German or Italian rule. Thus there originated conflicts.

IX

Sovereignty in the Present World

The principle of national sovereignty does not stand in the way of international division of labor and of peaceful collaboration of all nations within the framework of the world-embracing Great Society, provided that every nation unswervingly clings to the policies of democracy and
capitalism. In the socio-economic setting of market society (laissez faire, laissez passer) the state is not an omnipotent God, but—as Lassalle used to say disparagingly—just a "night-watchman." The state is not an end, much less the only and supreme end, but simply a means for the promotion of the citizens' welfare. The acknowledgment of the indispensableness of private ownership of the means of production and of unhampered market exchange restricts the exercise of sovereignty. Although formally free in the exercise of their powers, the individual governments are subject to the supremacy of a principle which prevents the rise of international conflicts.

If the state administered in accordance with the ideas of economic interventionism, statism, and socialism, sovereignty becomes unlimited and absolute. The totalitarian state pretends to be omnipotent, supreme and above any principle, law, rule or consideration for anybody and for anything. Nothing counts but its "sacred egoism." Right is what the state declares to be such.

This excessive notion of national sovereignty is incompatible with the present state of economic evolution. It cannot coexist with international division of labor. It wrongs all other nations and must result in strife.

Mankind is not free to return from a higher state of division of labor to a lower state. Autarky of every nation would impair very sensibly the standard of living of all peoples. There are today no such things as domestic affairs of an individual nation which do not affect the well-being of the rest of the world. Every nation has a material interest in the other nations' economic well-being because maladministration of one country hurts all other nations too.

If a national government hinders the most productive use of its country's resources, it hurts the interests of all other nations. Economic backwardness of a country with rich natural resources challenges all those whose conditions could be improved by a more efficient exploitation of this natural wealth.

Protectionism and autarky result in a state of affairs in which a country's resources are not used to the extent that they would be under free trade. For instance, the fact that the tariffs of those nations whose soil offers the most favorable physical opportunities for the production of wheat—the United States, Canada, and Argentina—hinder the import of manufactures would, even in the absence of European tariffs on wheat, compel Europeans to grow wheat on a soil which is less fertile than millions of acres of untilled soil in those countries better endowed by nature.
A country's economic insulation impairs not only the material well-being of its own citizens. It is no less detrimental to the economic interests of foreigners. This is why, in the middle of the past century, Great Britain and France induced China to open its harbors and why the United States applied a similar policy with regard to Japan.

X

The United States and World Affairs

Not only economic isolation, political isolation too is unfeasible in the present world.

The Western Hemisphere was once safe against aggression. Thousands of miles of ocean separated it from possible invaders. The airplane has radically changed this state of things. The American isolationists have not yet realized this fact.

They argue this way: "It is a very deplorable fact that the peoples of Europe are fighting one another, that they have wrecked their glorious civilization and that they are consequently doomed to starvation and misery. It is no less deplorable that similar things happen in Asia. Unfortunately we cannot save them from disaster. They themselves have to learn that peaceful cooperation would be more beneficial to them than war and mutual extermination. We cannot police the whole world. All we can do is to look out for ourselves and to preserve the Western Hemisphere's independence. We will keep neutral, will not interfere with other continents' affairs and thus preserve our American way of life."

But it is not without concern for America what happens in the rest of the world. The establishment of two big totalitarian empires, one on the other side of the Atlantic, one on the other side of the Pacific, would have been a tremendous menace to America's political independence. The German nationalists had always emphasized that the last goal of their ambitions was the conquest of a large colonial domain on the American continent. The present writer is not familiar with the Japanese language and does not know whether Japanese economists and publicists were equally frank in their printed utterances. But he knows from conversations with many Japanese professors and students that they considered the Americans and not the Chinese, their main enemies.

For the sake of its own vital interests America cannot remain neutral in world affairs and cannot live in political isolation. It has to realize that every international conflict will sooner or later involve America too and that it must be its main concern to establish a
post-war order which will make the peace last.

There have been suggested various plans for such a scheme for a
durable peace. Nobody can foretell today which of them will be put
into execution. However, all these proposals must needs imply a close
and permanent cooperation either among all nations or at least
among one group of nations, those united today in the war. If conflicts
are not eliminated, there can be no question of a durable political
alliance. But protectionism and still more autarchy provoke conflicts.

The Second World War was not caused by Nazism alone. The
failure of all other nations to erect in time a barrier against a possible
aggression was no less instrumental in bringing about the disaster
than the plans of the Nazis and the other Axis powers. If the Nazis
had expected to encounter on the first day of hostilities a united and
adequately armed front of all those nations which later came united
in fighting them, they would never have ventured an assault. But
collective security is unrealizable among nations bitterly fighting one
another in the economic sphere. Economic nationalism has divided
the peace-loving nations. If the United Nations do not succeed in
brushing away economic nationalism, postwar conditions will not
differ from those prevailing in the years between the two World Wars.
Then a third and much more dreadful war is unavoidable.

Every nation has to choose. The United States too. The alternative
is: unity among the peace-loving nations or return to the chaos out of
which new conflict will originate. But unity is incompatible with
protection. Every day experiences anew that the good neighbor policy
among the American republics comes into collision with economic
nationalism. How should Latin America and the European democracies
enter into a close political collaboration with the United States
if their citizens suffer from American foreign trade policies?

If economic nationalism is not abandoned the most radical disarm-
ament will not prevent the defeated aggressors from entering anew
the scene of diplomatic intrigues, from building up new blocks and
spheres of interest, from playing off one nation against the others,
from rearming and finally from plotting new attacks. Economic na-
tionalism is the main obstacle to lasting peace.

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5[This was written before the United Nations Charter was drafted on January 1,
1942—Ed.]