

## A Strange Dream

**Or was it a nightmare? Anyone who thinks they can prosper by shrinking trade relationships has failed to learn from well-worn historical precedent.**

A little boy went to school with a very lopsided sandwich, consisting of just three slices of baloney. There was no mustard, no mayo, no lettuce, and no butter, just white bread and baloney. While gnawing on his very dry sandwich, he noticed that one of his classmates had an extra packet of mustard, and no baloney. Naturally, they made a trade. Similar trades were made with other kids in class, and everyone was better off for it. After a few days, the entire grade 1 class was lifted to a higher gastronomical plane through a few strategic exchanges. All of them enjoyed beautiful, well balanced sandwiches for several weeks. One of the newer boys in class even brought in an exotic brown bread to trade.

Then one day the boy's father complained that he was getting ripped off by his poorer classmates. He was supplying the baloney, and they were supplying the less expensive condiments. He was also perturbed that the little immigrant boy, who only supplied a few pieces of garden fresh lettuce, was getting fat on his hard-earned baloney. That would not do! It was time to renegotiate! It was time to make that sandwich great again! And he did.

Harsh words were exchanged, friends became enemies, and in the end, the dad, and the boy got what they wanted. The boy was back to his dry, fatty sandwich, which he clung to in the corner, eating all by himself. Meanwhile the other kids continued to trade and enjoy a healthier, veggie sandwich on delicious whole wheat bread, a new trend in the class, now enhanced with special imported spicy mustard.

The little boy gobbled up the fleshy white sandwich, nearly certain that he was getting the better deal. But when he really thought about it, somehow he felt less satisfied than he had before.

*One thing is for sure, the on-looking teacher thought to herself, this boy is in every respect, full of baloney.*

### **Trade is a virtue.**

When we wish to punish a rogue nation, say for invading a neighbouring territory, and we don't feel strongly enough to send our soldiers to war, we restrict trade with them. And when we deny them access to the club of reasonable peoples, we also punish ourselves. But considering the many costs of war, we do it anyways. In fact, we refer to the international disputes in the world of commerce as trade wars because they are potentially devastating to all entrenched foes stuck in their own muddy intransigence.

Despite what the current trend might be in the UK, the US, or elsewhere, the trade relationships which have grown up over the last several decades are not surrogates for international aid. The US isn't buying Canadian lumber, or Chinese manufactured products because they are magnanimous. It's because they can make a buck in the process. In fact, despite our economic vocabulary, as a rule nations don't trade, business firms do, and they do so shrewdly, in order to prosper.

### **Hawley-Smoot, a Case in Point:**

In the dawn of the Great Depression, two US law makers co-sponsored a bill designed to protect American industry from what was seen as opportunistic foreign trading partners of their day. But, according to USHistory.org, "The amount of protection received by industry did not offset the losses brought by a decrease in foreign trade. The Hawley-Smoot Tariff proved to be a disaster."

More than 1,000 economists signed a letter asking then US President Hoover to veto the act, but they were derided for being "cloistered in colleges," or reprimanded as men who had "never earned a dollar by the sweat of their brow."

While the act cannot be said to have caused the Great Depression, the situation significantly worsened due to its aftermath. The Economist chimes in with an even more damning statistical rebuke of the legislation:

“Between 1929 and 1932, American imports fell by 40%. Exports collapsed even more dramatically, by 49%. This was at least partly the result of a whole host of measures taken by other countries after Smoot-Hawley that were designed to divert trade away from America. Canada, the country's biggest trading partner, began to trade much more with other British colonies and dominions. America's trading partners were particularly incensed by the poor timing of the new legislation: after all, their economies were already struggling. ...A number of European countries were particularly upset that America chose to raise tariffs just as they were attempting to negotiate a “tariff truce” through the newly formed League of Nations.”

Sound familiar?

The Economist concludes: “The act's reputation for vitiating international trade relations is thus well deserved. It was a useless piece of legislation.”

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