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Résumé : La conséquence typique du protectionnisme est de réduire le volume des échanges et donc la division internationale du travail. Mais les politiques publiques visent aussi parfois à gonfler le commerce international au-delà de ses limites naturelles. Ces politiques ont également un impact négatif sur la production globale. Le libre-échange ne doit donc pas être conçu en opposition au protectionnisme, mais à l'interventionnisme. L'objectif politique propre aux libre-échangistes devrait être d'écarter le plus possible les pouvoirs publics.

Abstract: The typical consequence of protectionism is to reduce the volume of trade and thereby the international division of labour. But public policies sometimes also aim at inflating international trade beyond its natural boundaries. Such policies, too, have a negative impact on aggregate production. Free trade should therefore not be conceived in opposition to protectionism, but to interventionism. The proper policy objective of free traders should be to get the government out of the picture as far as possible.

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Introduction

Ever since the days of Adam Smith, economists have championed free trade quite unan-
imously. They have demonstrated that trade policies – designed to encourage exports and
to discourage imports – are likely to make all nations poorer rather than richer (Smith 2007
[1776]; Ricardo 2001 [1821], 1951 [1822]; Say 2011 [1803]). The economic argument in
favour of free trade does not rely on the real or imagined perfections of a free-market
economy. Rather, it highlights the adverse effects of government interventions (Mises 2011
[1929]). Repressive trade policies in the form of tariffs, quotas, and product regulation cur-
tail the international division of labour and thereby stymie labour productivity at home and
abroad (Mises 1998 [1949], pp. 741-749; Röpke 1942). Whatever the imperfections of a
free-market economy are, they are likely to be reinforced by protectionism.

But this line of argument can be generalised. It does not only concern *repressive*, but also
permissive policies (Hülsmann 2024, pp. 268-275). In our present contribution, we shall focus
on the latter. Permissive trade policies most notably come in the form of export subsidies
and of expansionary monetary policy designed to boost exports. In what follows, we shall
study how such policies affect aggregate output, the international division of labour, the
volume of foreign trade in real terms and in money terms, as well as the relative importance
of foreign trade in comparison to the domestic economy. As we shall see, permissive trade
policies are not quite as harmful as their repressive cousins, but they tend to be sterile in
respect to the division of labour and harmful in regard to aggregate output.

We shall start off by considering foreign trade in a hypothetical world without govern-
ment interventions and a constant world money stock (I). This will serve as a foil to contrast
the impact of export subsidies (II) and the impact of expansionary monetary policies (III).
Throughout, we shall neglect the role of financial flows and of foreign direct investments.

I Trade without Government Interventions

In a first step, suppose that the world economy is operating within a framework of private-property rights, yet without any government interventions that deliberately violate existing property rights. Suppose furthermore that all agents of the world economy use the same type of money and that the overall money stock is fixed.

In such a world, the division of labour (DOL) and the corresponding real trade volumes would be both a cause and a consequence of economic growth. Trade volumes largely depend on the level of aggregate output, while the division of labour between the residents of any given area (home) with the rest of the world (ROW) also depends on the *relative* size of the home economy as compared to the ROW economy. Let us walk through a few scenarios to explain these connections.

The Pricing Process in a Growing Economy

Suppose that aggregate output increases once and for all times in the home economy, while the ROW is stagnating at its previous output level. The ensuing adjustment process would be driven by market prices and increasing specialisation. Let us first look only at the pricing process. In the economic literature, it is known as the specie-flow mechanism (see Lechner 1988, pp. 371ff).

The increased output at home would entail a tendency for all money prices at home to drop (price-deflationary growth). Indeed, economic growth means that a greater quantity or variety of real goods is supplied to the market. If the overall money stock stays put, as we have assumed, then the unavoidable consequence is that money prices at home would tend to fall. This concerns both product prices and the prices of factors of production (labour services, raw materials, intermediate goods and fixed-capital goods).

It follows that goods produced at home would be relatively cheaper than similar goods produced abroad. They become more price-competitive. It becomes more attractive to buy at home and less attractive to buy from the ROW. Exports from home to the ROW would increase *in real terms*. If the foreign demand for these goods is price-elastic, then the volume of exports from home *in money terms* would also increase. If it is inelastic, it would diminish. But as long as the price-level difference prevails, there will also be exports of *other goods* than

those that have been exported before the output increase. It is therefore likely that exports from the home economy increase not only in real terms, but also in money terms. The money stock is therefore likely to increase in the home economy and to diminish in the ROW.

This is why the initial competitive advantage of the home economy is bound to be temporary. For how would the money units flowing in from abroad be used? Some would be hoarded because the demand for cash would increase as a consequence of growing wealth. Some would be spent on goods produced at home, thereby increasing their prices. Some would also be spent on real goods produced abroad, most notably on goods which cannot be produced at home. The bottom line is that not all of the additional money units coming in from abroad would return to the ROW. The volume of imports into the home economy, in money terms, would lag behind the volume of exports from home. The nominal cash balances held at home would *permanently* increase, while the nominal cash balances held abroad would permanently diminish. As a consequence, the money price level abroad would eventually tend to shrink as well, and this would re-establish a competitive equilibrium between home and the ROW.

As long as the home economy grows faster than the ROW, this process would reiterate. Prices at home would drop, money-term exports from home would be higher than money-term imports into the home economy, cash balances would build up at home and shrink abroad, so that prices abroad diminish, until a new equilibrium be reached.

In each new final equilibrium, exports and imports would eventually be equal in money terms. The trade balance and the balance of payments would be equilibrated. However, there are also four significant changes as compared to the situation before the output increase in the home country. One, the division of labour (DOL) focuses more strongly on the home economy, both at home and in the ROW. Two, the volume of foreign trade *in real terms* is now greater than before. Three, the volume of foreign trade *in money terms* is also likely to increase. Four, foreign trade is less important relative to the home economy and more important relative to the economy of the ROW.

Indeed, if output surges in the home economy while it stays put in the ROW, then the division of labour (DOL) would focus more strongly on the home economy. Home residents would allocate a greater share of their time and material resources to serve the needs

of other home residents. In the short run, this occurs most notably because of the price advantages that the growing home economy enjoys over the ROW. Home residents would purchase more products manufactured at home, because home prices drop relative to prices in the ROW. But we have seen that these price advantages are only temporary. The true reason why the DOL would focus more strongly on the home economy is that the latter has become more productive whereas the ROW has not. The real revenues and the money revenues of the home residents have increased, while the corresponding revenues of residents in the ROW have not. And this means that home residents will be able to not only purchase more goods and services than before, but *relatively* more goods and services than will be purchased by the ROW. And they will also purchase relatively more goods *from* other home residents (rather than from the ROW) simply because these others now produce a greater share of world output.

The worldwide DOL would therefore be geared more strongly to the home country. The home residents would allocate a greater share of their time and material resources to serve the needs of their compatriots. And the ROW, too, would allocate a greater share of their time and material resources to serve the needs of the residents of the home country. If the different growth rates persist for a prolonged time, then the home country would eventually grow into the role of a metropolitan area, whereas the ROW would turn into the home's periphery or economic hinterland.

Since the agents of the home economy are increasingly trading amongst themselves, one may think that, in the new equilibrium, the *money volume* of foreign trade is likely to diminish, even though the real volume will increase, as compared to the initial situation. But we also need to keep in mind that money revenues and nominal cash balances in the home country have permanently increased. Therefore, even though, for the reasons we have discussed, the spending on imports is likely to decline in the home country relative to domestic spending, the absolute level may very well increase. For example, the residents of the home country may initially have had an aggregate revenue of 100 units of money, out of which 20 were spent on imports. When the economy grows relatively to the ROW, its aggregate revenue may increase to 200, out of which 30 are spent on imports. In the initial situation, foreign trade was relatively more important for the home country, but in absolute terms it spent less on imports because its overall revenue was smaller. By contrast, in the ROW, foreign

trade will become more important, not only in real terms, but also in money terms and relative to the domestic economy.

Analogous consequences would follow, *mutatis mutandis*, if the ROW grows while the home economy stagnates. Then imports from the ROW to the home economy would increase, with corresponding money outflows, and not all this money would flow back. The home price-level would therefore eventually diminish, and a new equilibrium be reached. The DOL would be reoriented, and a relatively greater share of time and material resources be allocated to serve the needs of the ROW. The real volume of foreign trade would increase, as would its money volume, while foreign trade would become more important relative to the home economy and less important relative to the ROW. The latter may eventually turn into an economic centre of the world economy, while the home turns into a hinterland.

If *all* areas of the world economy are growing at approximately the same rate, then the world price level would drop, yet without any major regional disparities. In this case, foreign trade could not be reshaped under the mere impact of the price-level changes that we have discussed so far. But it will be reshaped under the impact of another repercussion of economic growth, namely, diversification. Let us look at this in a bit more detail.

Specialisation in a Growing Economy

Economic growth comes with product differentiation. A growing economy does not need ever more haircuts and bread. Sooner or later, it needs *better* haircuts, better bread, and *new* products serving needs that were hitherto not provided for. This movement, too, is typically prompted by the price-deflationary impact of economic growth. In order to avoid or mitigate the reduction of their monetary revenues, producers at home and in the ROW will seek to side-step price competition and cater to niche markets. In many cases, this is only possible through geographical extensions of the customer base.

The trade volume in both money and real terms then tends to increase beyond what it would have been under the mere impact of price-level changes. If only the home economy grows while the ROW stagnates, then the DOL would still be reoriented to the benefit of the home economy. The spending on imports relative to domestic spending is likely to decline in the home country and to increase in the ROW, but the relative decline would be

mitigated at home, and the relative increase reinforced in the ROW, by virtue of product differentiation and specialisation.

If *all* areas of the world economy are growing at approximately the same rate, trade patterns would not be driven by any *price-level* differentials, but by the intensification of the DOL and corresponding changes in individual prices (i.e. in the *price structure*). Specialisation and product diversification would increase. Each producer would more and more cater to customers all over the world, rather than only at home. In all countries, foreign trade would increase relative to purely domestic trade. It would increase in real terms and in money terms.

II Trade Driven by Export Subsidies

Let us now abandon our previous assumption that the world economy is operating without any government interventions that deliberately violate existing property rights. Suppose that governments exist and that they intervene into the economy with permissive trade policies. But they do not meddle with the money stock. We still suppose that the latter is fixed and that the same money is used all over the world.

Permissive policies pursue the deliberate objective of facilitating exports from home (imports into the ROW). They come in various forms and shapes. They can be volume-based (e.g. the government pays to exporters X pounds per vehicle of type Z sold to customers abroad) or value-based (e.g. the government pays a subsidy of X percent on the price paid by customers abroad). Often, they also come in the form of government-funded export insurance, or in the form of industrial policies designed to create “national champions” that are especially competitive on a world-wide scale. (By contrast, tax rebates and tariff drawbacks are *not* subsidies, see Adam Smith 2007 [1776], p. 388.)

Winners and Losers

Export subsidies enable more foreign trade in the subsidized products. Their primary beneficiaries are the subsidised exporters, as well as their suppliers and employees. They all receive additional revenue out of the public purse. Their customers abroad benefit, too,

since they usually do not have to pay the full price of the services that they receive from the exporter.

Notice however that the foreign customers do *not always* gain from the export subsidy. This is because the *intended* beneficiaries are not always the real beneficiaries. In the political process, an export subsidy is *presented and justified* as a subsidy to attract foreign customers. But it may very well turn out to be a *cross-subsidy on internal sales*, in which case it would mainly benefit costumers at home. If a car manufacturer receives from his government 10 million pounds for cars he sells abroad, he may use a part or all this money, not to reduce his prices abroad, but at home. Of course, in his official accounting he would impute the subsidy to exports only. His sales abroad would show a profit, while the sales at home would show a loss. But this might not be his internal accounting.

Again, such a cross-subsidisation *may be* the unintended effect of an export subsidy. But it may also be implemented for the deliberate (though hidden) purpose of benefitting the export business at home, rather than abroad.

Export subsidies also create losers. The subsidies must be financed by the rest of the home economy in the form of taxes or in the form of an inflation of the money stock. In the present section we still suppose that no extension of the money stock takes place. In that case, all subsidies must be funded out of taxes, and taxes reduce the business revenues and household revenues of the taxpayers. They therefore also reduce the revenues of *their* suppliers and employees. The squeezed profit margins can lead to insolvencies and unemployment. While more resources (capital, labour, raw materials) will be re-allocated into the subsidised industry, less resources will be used elsewhere.

If the subsidy is fully funded by taxation, the amount of the subsidy is exactly equal to the amount that has been levied on the taxpayers. The overall net effect on aggregate revenues and aggregate production is therefore likely to be zero. To be true, this is not how things usually *appear* to be. The reason is that the subsidies are typically concentrated on a few beneficiaries, while the corresponding taxes are typically paid in small increments by a great number of taxpayers. The benefits are therefore highly visible, while the costs are widely dispersed and often seem to be outright negligible for each individual taxpayer (see Salin 2020 [1985], p. 174).

Now an export subsidy is quite frequently justified as a beggar-thy-neighbour policy: not nice, but does the job. The home country seems to gain at the expense of hapless foreigners who are lured into buying more of the subsidised products. But the beggar-thy-neighbour idea falls short of its promise. It is true that the subsidised businesses gain an advantage at the expense of their foreign competitors. But this microeconomic advantage cannot be generalised. Recall that we are still supposing that the world-wide money stock does not change. In that case, each additional pound that the ROW customer pays on the subsidised product is a pound that is not spent elsewhere. As a consequence, the prices of *other* goods in the ROW will eventually drop, and these goods will therefore become more price-competitive. If Britain subsidises cheddar cheese on the French market, then Frenchmen will likely purchase (marginally) more British cheddar. But all the money spent on cheddar is not spent elsewhere in the French economy. The prices of other goods will therefore (marginally) drop and become (marginally) more competitive, not only within France, but also internationally. In other words, a policy of export subsidies, while benefitting any *one* line of business in the short run, nurtures competitors to *other* British businesses in the longer run.

A Zero-Sum Game

It would be wrong to infer that export subsidies are zero-sum games. In fact, they are negative-sum games. The recipients of the subsidies may benefit, but the home country as a whole is likely to lose. Two important considerations lead to this conclusion.

The first one has been spelled out by Adam Smith in 1776, by Murray Rothbard in 1970, and by hosts of other economists in the past and in the present. Subsidies bring about an allocation of resources that businessmen would not have chosen in the absence of government coercion. Without the subsidy, the exporter would have to sell his products in a foreign market at a price “which does not replace to him his capital, together with the ordinary profit” (Smith 2007, p. 390). In that case he might not export his goods and services at all, or sell less of them, because such exports would entail a loss. Thanks to the subsidy, capital, raw materials, and labour are now used in a way that is less productive than existing alternative uses which, under normal circumstances, would have been chosen instead. Lines of production which *really are less profitable* than others are *becoming profitable* from the microe-

conomic point of view of the subsidised beneficiary, at the expense of the rest of the economy. It is arguably rational for individual entrepreneurs to seize this artificially created profit opportunity, but it is pointless from a macroeconomic point of view. Economists call this a rationality trap.

The second reason is that some of the available resources are not redirected into other lines of business, but diverted into bureaucracy and political rent seeking. Additional bureaucracy is needed to execute the subsidy programme. Political rent seeking is needed because the subsidy is a one-off advantage. In order to turn it into a perennial benefit for the recipient, it must be renewed again and again. That is, it must be defended in the political process through constant lobbying and bribery, along with the corresponding regime uncertainty (Higgs 1997, 2012).

This is why subsidies tend to be deadweight losses for the home economy. Subsidies of all forms, according to Rothbard (2009 [1970], p. 1255) “coercively penalize the *efficient* for the benefit of the *inefficient*.” He points out:

This is most clearly seen in the case of government transfer subsidies paid from tax or inflation funds – an obvious taking from Peter to give to Paul. Let the subsidy method become general, then, and everyone will rush to gain control of the government. Production will be more and more neglected, as people divert their energies to the political struggles, to the scramble for loot. It is obvious that production and general living standards are lowered in two ways: (1) by the diversion of energy from production to politics, and (2) by the fact that the government inevitably burdens the producers with the incubus of an inefficient, privileged group. The inefficient achieve a legal claim to ride herd on the efficient. *This is all the more true since those who succeed in any occupation will inevitably tend to be those who are best at it.* (p. 1256)

Export Subsidies and Foreign Trade

We now turn to the impact of exports subsidies on foreign trade. The real exports *of the subsidised businesses* will increase. Their exports in money terms may or may not increase, depending on the price-elasticity of the demand for the subsidised goods. Let us assume for the sake of argument that foreign demand is relatively elastic, so that the overall selling proceeds (exports in money terms) increase for the subsidised businesses.

Even then, it is not certain at all that the *overall exports* of the home country will in the long run increase in either real or money terms. Indeed, as we have seen, the increased spending of the ROW on the subsidised goods willy-nilly goes hand in hand with diminished spending on other goods. The prices of ROW goods will therefore eventually drop relative to the prices of goods from the home country. The non-subsidised exporters from the home country will therefore have a harder time marketing their products to the ROW. It is therefore very well possible that the export subsidies have no impact on the *overall* export volume (money terms and real terms), and it is even possible that the overall volume diminishes.

Let us assume for the sake of argument that the export subsidies increase the overall volume of exports from home. More money is then flowing into the home economy thanks to the permissive trade policy. But this does not represent any overall advantage to the home economy as compared to the ROW. It simply means that the international division of labour has been restructured in an inefficient way. Foreign trade swells to the detriment of the domestic economies at home and abroad, but there is no aggregate benefit.

Indeed, whenever export subsidies increase the overall volume of exports from home in money terms, this is likely to bring about an increase in imports as well. The reason is that there would be no reason to *hoard* the additional money units. After all, aggregate wealth has not increased and may even tend to diminish, for the reasons discussed above. All or next to all money units coming into the home country would therefore be exchanged for non-monetary goods. As a consequence, the home price-level would tend to increase. In the ROW, it would be the other way around. Money is leaving the ROW area, and the ROW price level is therefore likely to fall. The overall result is that products from the ROW would become increasingly competitive in comparison to home products. Exports from the ROW (imports into the home country) will therefore tend to increase.

To sum up, it is by no means certain that export subsidies have any positive impact on the overall volume of foreign trade. Sectoral subsidies of the sort that we have discussed so far have no systematic impact on overall trade volumes at all. *Even if* the overall export volume were to increase, it would likely entail an increase of overall imports as well. Superficially, such an inflation of foreign trade would resemble the case of the growth-driven

expansion of foreign trade that we discussed in section I. But notice the difference. Economic growth brings about a systematic, permanent, and productive increase of foreign trade, whereas export subsidies entail this result only accidentally, temporarily, and parasitically. Growth-driven foreign trade is an organic extension, or spill-over, of the division of labour into the international realm, whereas any subsidy-driven growth of foreign trade is doomed to be a destructive redistribution of income and wealth. It is a waste of time and money from the overall point of view.

III Trade Driven by the Printing Press

Until now we have reasoned from the hypothetical premise that all agents of the world economy use the same type of money and that the overall money stock is fixed. Let us now drop this hypothesis and assume that governments do intervene in the production and use of money.

Assume furthermore that, as a consequence of these interventions, there are national currencies the stock of which may be expanded without any technical or legal constraints (Hoppe 1990). It does not matter for the purposes of our argument whether these national currencies are privately produced or provided by government-sponsored central banks. Neither does it matter whether these national currencies come in the form of money substitutes (inside money) or in the form of base money (outside money). It only matters that the government exercise control over the production and allocation of new money units. As a shorthand, we will use the metaphor of the central bank controlling the printing press to refer to this situation.

A government may use the printing press to pursue a permissive trade policy. It is able to increase the money stock at virtually zero marginal costs. It can therefore artificially reduce the value of its own currency on the foreign exchange markets. Assume, for example, that the current exchange rate between the home money and the ROW money is $H1.20$ to $R1$. The home central bank, which controls the home printing press, could decide to buy ROW money at $H1.80$ and keep these money units in its forex cash balance. This would correspond to a 50% devaluation of the home money against ROW money. All forex market participants would immediately buy at the new rate. No seller of ROW money would

be willing to sell below $H1.80$, because he could always obtain this price at the home central bank. And no buyer of ROW money would therefore find anybody willing to sell below this threshold.

This means that goods from the home economy are now cheaper for buyers abroad. ROW customers would rush to the forex markets, exchange their money for the home money, and then purchase goods and services from the home economy. Exports from the home economy would therefore increase in money terms and real terms. Most importantly, exports from *all* branches of the home economy would increase, not only exports from specific firms or branches, as in the case of export subsidies. All exporting businesses are likely to have higher revenues. All exporting businesses are therefore likely to have higher profits. They may all hire additional people, pay higher wage rates, and make additional investments.

But this stimulus is bound to be of temporary value only, just as in the case of subsidies. Indeed, as we have seen, the new units of home money, which had been created through a central-bank intervention on the forex markets, quickly find their way into the domestic home economy. At first, they are paid to the exporters. But the latter will then use them to remunerate their employees and suppliers. And then these other people will spend them, too, and so on and on. One round of spending therefore leads to the next. The new money units trickle through the economy, thereby increasing revenues and prices. The different individual prices will not increase in the same proportion and at the same time (Cantillon effects), but they definitely tend to increase (Mises 1998 [1949], pp. 413ff; Hülsmann 2013; Dorobat 2015). While more money units have been created out of thin air thanks to the powers of the central bank, these powers are insufficient to create more goods out of thin air that can be exchanged for money. The home money supply is therefore bound to become relatively more abundant as compared to the supply of non-monetary goods, and the consequence is an increase of the price level.

This price-level increase will quickly become problematic for all the business that primarily serve the domestic market. Their top-line revenue has not increased, or increased only insignificantly, but now their costs are rising because the exporters spend their selling proceeds and thereby bid up factor prices. This means that the forex intervention may turn into a zero-sum game of sectoral gains and losses. The exporters gain, but their advantage

comes at the expense of corresponding losses among the firms that primarily serve the domestic market.

The same problem will eventually befall the exporters themselves. Suppose the initial forex intervention occurred only once. Today the home central bank buys ROW money at $H1.80$, but tomorrow it abstains from any further intervention. This would give a one-time advantage to the lucky few who buy the home money today. It also would provide a one-time advantage to the exporters and increase their top lines. As from tomorrow, however, the bonanza would disappear and the exporters would revert to normal business. For it to have any significant impact, the forex intervention must therefore be repeated, again and again, as in the case of export subsidies. Eventually, the central bank must purchase ROW money at higher prices than $H1.80$ because factor prices will have caught up to that level. The permanent expansion of the home money stock to buy ROW money at a price of $H1.80$ sooner or later pushes up the price level at home so much that $H1.80$ is now the going market rate and no longer requires any further intervention. In order to procure advantages to the export firms, the exchange rate then has to be propped up to $H1.90$ or $H2.00$.

The benefits of forex interventions for the exporters and their customers, suppliers, and employees are therefore only temporary. This implies that such policies are likely to entail significant log-rolling and other forms of rent-seeking by the beneficiaries, along with corresponding deadweight losses for the economy as a whole.

But there are other losses as well. We have already pointed out that the benefits of the exporters come at the expense of businesses that primarily serve the home economy. Moreover, consider that a rising exchange rate of ROW money means a dropping exchange rate of the home money. It means that all ROW goods and services become more costly to home residents. It means that the division of labour between home customers and their suppliers from the ROW is hampered. For the same reason that exports receive a short-run boost, imports are likely to be curtailed.

Furthermore, we need to ponder the significance of the above assumption that the home central banks purchases ROW money at artificially high prices to keep it in its forex cash balance. This seems to be a very unrealistic assumption. Present-day central banks, to the extent that they seek to bid down the exchange rate of the home money (think of China

and Japan), do not keep ROW money in cash, but purchase ROW financial assets. However, in an era of extremely low interest rates by historical standards, this policy comes close to hoarding cash. Moreover, and most importantly, from an overall point of view it is just as problematic as cash hoarding, and possibly even more so. For what the policy means *in real terms* is that the central bank subsidises ROW customers of the home exporters and then uses the selling proceeds to subsidise ROW debtors. Where is the benefit for the home economy? It creates products for customers abroad and in exchange obtains only promises of future payments. Clearly, such a policy carries the definite risk of turning the home economy into a slave serving foreign masters. At any rate, it means that the division of *labour* is curtailed. True cooperation is replaced by unilateral production in exchange for promises.

Speaking of ROW financial assets brings us to what is probably the most momentous disadvantage of unilateral forex interventions, namely, that they tend to dissuade potential investors from all over the world. Investors from the home country will be reluctant to invest at home if they must expect the exchange rate to deteriorate for extended periods of time. For the same reason, investors from the ROW would rather stay in their countries than expose themselves to a capital loss.

In short, a policy of foreseeable forex interventions with the purpose of reducing the exchange rate of the home money are bound to have catastrophic consequences for capital flows, *unless they are compensated by other factors*, such as savings and genuine entrepreneurship. China and Japan are casebook examples. In both countries, central banks have been able to pursue forex interventions of the sort that we have discussed, yet without suffering capital outflows, because the policy-induced devaluations of the yuan and yen on the forex markets have been more than compensated by the vigorous growth of the real economy.

But this does not alter the impact of the policy *as such*. Without the intervention, the exchange rates of the yen and of the yuan would have been substantially higher, with corresponding gains for Japan and China as a whole, in terms of the volume of foreign trade, of the integration into the international division of labour, and of capital flows. Their ill-advised monetary policies have entailed a *relative impoverishment* of these countries. They have become poorer as compared to the wealth that they could have attained in the absence of these policies. Thanks to compensating factors, this relative impoverishment has not turned into an absolute one.

To sum up, when the printing press is used to pursue a permissive trade policy, it is unlikely to have any beneficial impact at all from an aggregate point of view. In the short run it is likely to create as many immediate winners as immediate losers. In the longer run, it jeopardises the international division of labour and encourages political rent-seeking. In the long run, it is bound to discourage capital investments unless the ill-faded policy is neutralised or overcompensated by the exploits of the private sector.

Table: Overview

	Homogeneous economic growth	Growth at home Stagnation in ROW	Export subsidy	Inflationist exchange rate policies
Trade volume (real)	Increase	Increase	Unsystematic	Short-run increase of exports Short-run implosion of imports
Trade volume (money)	Increase	Increase	Unsystematic	Increase
Relative importance of foreign trade	Increase	Decrease at home Increase in ROW	Unsystematic	Increase of exports Decrease of imports
International division of labour	Increase	Increase (more strongly oriented towards the home economy)	Unsystematic	Decline

Conclusion

International trade volumes can be artificially inflated, at the expense of domestic trade and the domestic economy, through central bank monetary policy and other forms of interventionism. Such policies have a negative *aggregate* impact on the economy by encouraging capital exports and by increasing bureaucratic red tape, cronyism, and regime uncertainty. They are often perceived to be beneficial for the economy as a whole because they

go hand in hand with concentrated and visible gains for the few winners and hidden losses for the many losers. Genuine free trade requires that such permissive policies be abrogated. Free trade should not be conceived in opposition to *protectionism*, but to *interventionism*. The proper policy objective of free traders should be to get the government out of the picture as far as possible.

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