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Trade and Investment: preserving the fruits of liberty

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ONE MAJOR theme of Henry George's life work was that international free trade serves human welfare. 'Protection' — man-made restrictions — must do needless harm.

He wrote brilliantly in condemning the use of the coercive power of government to restrict opportunity to buy and sell across national boundaries. For another occasion, I gathered a few selections from his *Protection or Free Trade.*[1]

'Free' and 'freedom' are terms whose general sense we understand. At the margins of application they do have elements that can be subject to debate. For present purposes, however, we can think of freedom as being limited by governmentally (politically) created restrictions on what human beings may do. The limitations imposed by government, one must recognize, may provide support for private actions (monopolistic) that also limit what others can do. For example, 'voluntary' restrictions on the steel and autos and textiles that may be exported to the United States from other countries embody, in fact, governmental actions. Moreover, they burden American consumers without yielding revenue to government, as would a tariff.

Buying, selling, and investing across national boundaries are not as free from governmental restrictions as George would have wished. But the mammoth volume — and it is mammoth — of transactions today must testify to both opportunity and its successful use.

There has been a huge growth of foreign trade and investment. Measurement of the increase from decade to decade presents problems. For example, the creation of two or more countries where there was once one has sometimes turned what would have been domestic trade into international — East-West Germany before reunification, for instance.

There are many other reasons why it is difficult to measure changes in foreign trade. New products and services are not readily compared with those of the past. Inflation and the use of many new currencies greatly complicate the use of money figures for comparisons over time. The numbers collected have errors from many sources — various kinds of services, as well as smuggled goods, escape counting; and record keeping is incomplete. Many final products consist of assemblages of parts fabricated in several different countries, frequently by the same multinational company.

Yet one conclusion must stand out from the best data available: the growth of international trade, of both goods and services, has been very great indeed. The same applies to flows of both short- and long-term investment capital.

This growth of international trade and investment has been part of the striking economic progress which is evident when we compare economic conditions five decades ago with those of today. (I suggest 50 years because it was then that the United States was embarking on its campaign for the reciprocal reduction of tariffs. Secretary of State Cordell Hull had succeeded in getting authority to use the treaty power, as against Congressional determination of specific tariff rates.)

The U.S. population today is 248 million (115 million, or 90 percent, more than in 1939). The increased numbers of people have also raised their levels of economic well-being. Adjusting for inflation, one finds that personal consumption expenditures per capita have risen by around 150 percent. Since World War II the populations of many other, but not all, lands have likewise achieved a remarkable improvement in levels of living.

One cause of what has been the substantial human accomplishment of higher living standards for more persons has been the opportunity to deal more freely across national boundaries — buying and selling goods, the provision and receipt of services, and the investment of capital. The US Gross National Product in today's dollars is nearly 20 times that of 1950 (well after World War II). Foreign trade increased, relatively, even more. Exports from this country are around 25 times, and imports 30 times, as high as in 1950. (These figures show orders of magnitude, not precise amounts.)

When foreign trade grows from year to year, people must not only expect to benefit, but also succeed in doing so. The buying and selling result from choices made voluntarily. Some of the reasons for, and sources of, benefits from exchange deserve note, even though space limitations restrict us.

Nature did not distribute resources equally over the world. Climate and topography vary significantly. Denver cannot accommodate ocean liners. Copenhagen does not offer good conditions for skiing. Fortunately, exchange can overcome obstacles that inhere in nature. Residents of Denver drink coffee, and Danes ski. In short, we can overcome the effects of obstacles growing out of the way the world was created. Doing so often requires movement across national boundaries.

It is not only natural resources that are distributed unequally. The historical accumulations of capital equipment and of human skills differ widely from one place to another over the world. Trade permits consumers and producers, even those in lands not yet developed, to draw upon facilities in other countries.

People in one area (nation) can benefit by specializing and utilizing intensively those resources that are relatively plentiful at home, and importing goods and services that are relatively more plentiful elsewhere. The division of labor — specialization — permits human beings to develop skills. Goods and services that would otherwise be utterly unobtainable can be had when people specialize and exchange. Intricate and expensive equipment can be used when enough customers can be served to permit the costs to be recovered. Consumers who could not possibly afford such production facilities can reap the fruits by exchange, not only the exchange that is possible within the boundaries of their own country but over the world.

For many reasons, larger volume of operations often permits lower cost per unit. There are economies of scale — the larger the scale of output, the lower the cost per item. The lowest cost per unit, benefiting all customers, may require volumes of output for which markets in just one country are too small.

Another benefit from freedom of international trade deserves emphasis. The freer that trade is over the world, the greater the forces of competition. Tendencies toward monopoly and the restrictions it produces are weakened by competition: the larger the area of effective competition — many economies are distinguished from one or a few — the smaller the burdens of monopoly. The reduction of governmentally created obstacles to exchange must enlarge the opportunity for more and more human beings — and in ways beyond the obvious.

Despite the benefits of freedom and the burdens from restrictions, governments continue to impose obstacles — man-made impediments to the achievement of higher levels of living. But, through painstaking effort, changes that Henry George would have praised have been achieved.

Old and New Man-made Barriers

The period since World War II has seen a drastic reduction in tariffs and the freeing of currency movements and of capital for investment. Agreements among governments to resist pressures to erect obstacles have undoubtedly headed off moves to create new barriers and to raise old ones. No one can know what would have come about in the absence of the General Agreement on Tariffs and Trade (GATT), with its buttressing of forces of freedom. In the USA and many other countries political leadership continues generally to endorse support for encouraging trade. (Lip service is not always matched by action.) The articulation of intellectual support for freedom may have had inspiration in Henry George's work. Although any direct connection in forming opinion will have been rather long ago, 'ideas have consequences,' even though delayed.

Today, however, there are still all too many restrictions on foreign trade, and pressures to create new ones, chiefly non-tariff barriers. There are quotas and other quantitative restrictions, such as 'voluntary' agreements, orderly marketing arrangements, anti-dumping rules, sanitary codes, and so on.

Henry George's world did not know many of the kinds of restrictions that are imposed today. Human ingenuity finds new ways to use, or propose to use, the compulsion of government to impair freedom of trade and investment, devices to create a 'new protectionism.' Rationalizations for doing so challenge those of us who advocate freedom. For example, policies to regulate agriculture for domestic reasons have led to costly impediments to world trade. For a time, but perhaps less so today, persons trying to plan the development of poor economies often believed that trade restrictions could be used to advance progress, e.g., import substitution policies that not only raise costs to consumers but impair the ability to compete in world markets.

Mercantilist-type considerations account for some government export subsidies that lead other governments to complain of unfairness and to counter with new obstacles. Actual or alleged dumping, for example, selling abroad at prices below those at home, may lead governments elsewhere to impose burdens such as U.S. countervailing duties. 'Buy American' laws for Federal, state, and local procurement give domestic sellers preference while burdening the taxpayer. Some governments impose domestic-content requirements, for example 50 percent of the final value of a product must consist of domestic input (labor and components).

Protection or Free Trade,[2] written more than a century ago, could not discuss some of today's realities. Yet George's reasoning stands. The case for freedom, for opportunity, remains overwhelmingly valid. The dangers from the use of government coercion are unending.

Today, just as a century ago when Henry George presented the case for free trade, there are advocates for restriction. (The term 'restriction' seems preferable to 'protection,' with the latter's connotations of something good.) Some arguments are the same. But there are elements that are modern.

Let us note a general reality of great significance: there will always be opportunities to do 'good things' by concentrating benefits on a relatively small group, taking a little from each of a vastly larger number. The benefits are not 'for free.' The restrictive action, such as a tariff or a quota, imposes costs. They may be completely or largely hidden. Typically they impose small burdens on many to provide relatively large benefits for the few.

This type of imbalance exists often. For example, as an economist I know that U.S. trade restrictions keep sugar prices in this country at a multiple of the free world market price. As I drafted this paper I heard the broadcaster tell me and millions of other listeners that sugar makes up only a small fraction of the price of a candy bar. His message: 'You get a bargain.' But you can be sure that those persons who impose the burdens expect not pennies but great fortunes.

Sometimes 'discrepancies' — much for a few taken from millions in small amounts — result from free choice, such as mass patronage of professional athletics that permits stars to receive 40 or more times the earnings of the average American; in such cases one can approve (without necessarily applauding) the choices of others. But when the coercive power of government is used to force us to pay others without any assurance, any presumption, or perhaps even any pretense, of informed consent, must we not condemn the process?

I cannot vouch for, but I can believe, reports that restrictions on steel imports have destroyed many more jobs in U.S. companies using steel (some in export production) than have been saved in steel production. Such restrictions permit U.S. steel companies to charge prices higher than in a free market. The limits on the import of autos from Japan made American consumers pay more for cars than they would have if the market had been free; the presumed beneficiaries, employees of auto companies, generally get higher compensation relative to effort and skill than most Americans. The program of quota restriction was advanced and put into effect with talk about the benefits, which are to a relative few; only minuscule attention was given to the costs forced on the far larger numbers of consumers who must suffer.

The few who expect relatively much have incentive to devote concentrated effort. The many have so little at stake individually that they cannot afford to organize and press their interests.

The infant industry argument does have appeal — shield an industry until it can get established. Much evidence confirms the reality of the learning curve — unit costs decline as producers gain experience. Getting into such positions does provide strength for expansion and competition in the world. But converting a theoretical possibility into practical, real-life achievement does not work out. Infants may grow but will not admit to being grown up enough to stand without the continuation of shielding and the power to charge consumers more than free market prices.

The use of tariffs and other restrictions as instruments for bargaining in international arenas has received support in Congress. The usual case says to foreign governments, in effect, 'We shall impose burdens on American consumers to induce you to reduce barriers that restrict exports from the U.S. (and burden your consumers).' Or: 'Your companies are selling to American consumers for less than to your domestic consumers — dumping; we shall therefore impose burdens at home that reduce this unfair competition for American producers.' Perhaps such bargaining can bring more good results than bad.

I am skeptical. Let us keep our eyes open to see whether results can be determined and evaluated. The retaliation to be expected can start a series of responses that lead to deplorable results.

Another consideration may differ from anything in Henry George's day — consideration for the balance of international payments. The United States has had a deficit for several years, and it continues. (Presumably the deficit is to be condemned, not an obvious conclusion.) Will not putting quotas, tariffs, and other restrictions on imports help to reduce imports and thus cut the deficit in the balance of payments? Probably not much, if any, and at excessive cost. But on these matters, in a world of flexible exchange rates, one encounters complexities and uncertainties. Experts believe that trade restrictions lead not to reductions in balance of payments deficits so much as to the lowering of real income.

National defense looms larger in American life today than in Henry George's time, and it deserves respect in the formulation of economic policy. But what, really, will serve national defense? This question requires far more than the testimony of parties directly interested in specific industries or activities. I would be reluctant to pass judgments on real-world situations but am inclined to be skeptical, especially as to the effectiveness and efficiency of trade restrictions as a means of serving the national defense.

Foreign Policy

Complications arise from the use of international trade and finance to try to help implement foreign policy. Policy makers see many and varied specific objectives in a complex and changing world. In matters of foreign policy and trade, economic results do not include all that will be taken into account. Evaluation cannot rest on reasons that would be adequate in a straightforward world. One thinks of prohibitions applying to trade with South Africa, Nicaragua, North Korea, Communist China, Iran, and the Soviet Union, and, in contrast, special trade provisions for Israel and Caribbean countries.

In trying to judge such policies and proposals for others, one must recognize, first, a set of considerations that involve the desirability of the noneconomic foreign policy goals. Are they highly meritorious? Or of dubious merit? Or definitely wrong?

Then there will be consideration of the effectiveness of the trade provisions in achieving the goal(s). Will what is actually done really help? Predicting what is likely to come will involve questions. What retaliations may be imposed? Evaluating what seems to have resulted in somewhat similar cases, if any, will be difficult.

Then one must ask about the cost relative to the probable benefit. Will countries generally friendly to us cooperate? Or will they (their businesses) try to take advantage of new opportunities to fill gaps left by the U.S. withdrawal? No good answer may be available. The future reactions of others are unknowable, although one may draw upon some past experience for guidance. Will domestic producers freed of some competition from abroad raise prices? While reason and available evidence may lead to likely conclusions, most often one deals with unique situations and no comparable precedents.

The domestic industries affected may, or may not, be able to supply useful information about what to expect. Can biases be adequately measured? What will be the economic and political reactions? Some American farmers did not welcome embargoes on export of grain to Russia. Interrelations among parts of the economy and of the society as a whole cannot be adequately taken into account.

I wish that in good conscience I could endorse general principles about the use of restrictions on foreign trade and investment for varied noneconomic goals of foreign policy. But such presumption would not be responsible. Conditions differ. What is clear is the need for the best analysis possible, kept up to date. There is also need for keeping open the opportunities for revision or abandonment of policies when conditions warrant. Beware of creating new special interests resting upon the trade restrictions!

The temptation to misuse potentially positive arguments for trade restrictions to help achieve foreign policy goals can be strong. This whole range of considerations presents disturbing aspects. And one must also recognize that foreign policy goals can be hampered by trade restrictions growing out of domestic politics. U.S. sugar regulations hurt the Philippines and some Caribbean and Central American countries that the United States would like to see in a better economic condition.

International trade and finance are subjects of wide concern. Every country faces current issues of significance. The daily news touches on matters of trade barriers, currency exchange rates, international loans, and conditions for competition. The further reduction of barriers to exchange in Europe scheduled for 1992, along with the recent Canadian-United States treaty and the continuing negotiations under GATT, will keep the issues alive. There are matters for decision at frequent intervals. Action will be required; even a decision to do nothing requires the act of decision. Large amounts, both financial and real, can be involved in trade actions that may hinge on small differences between two sides. Tipping the balance one way or the other can result from just a little more or less effort and pressure by the public.

The public must be provided with the kind of statement of principles that Henry George articulated. His language is so vivid that it can serve today. It is timeless. Does the fact that his words have existed for more than a century mean there is no need to repeat the message? By no means. No more than a handful of persons active today will have read Henry George on free trade. Whatever public opinion seems to be, the depth of conviction as to the principle of economic freedom can certainly use support. Where it is weak, additional effort by the advocates of free trade could contribute to constructive action.

The two great themes of Henry George's work — free trade and reform of the property tax — are elements of a set of principles for enlarging human welfare, for enabling men and women to utilize their potential for a better life.

NOTES

1. C. Lowell Harriss, 'Guidance from an Economics Classic,' *The American Journal of Economics and Sociology*, Vol. 48, No. 3, July 1989, pp. 351-356. Views expressed there and in this chapter are the author's and not necessarily those of any organization with which he is associated.
2. Henry George, *Protection or Free Trade,* New York, 1886. Current edition published by Robert Schalkenbach Foundation, New York, 1980.