

INTERNATIONAL TRADE AND INVESTMENT:
PRESERVING FRUITS OF FREEDOM
(DRAFT: to be revised)

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One major theme of Henry George's life work was that free trade serves human welfare. Protection (restriction is a better term) does needless harm.

He wrote brilliantly 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 PROTECTION OR FREE TRADE. Anyone who wishes may have a copy from the AMERICAN JOURNAL OF ECONOMICS AND SOCIOLOGY.

"Free" and "freedom" are terms whose general sense we understand. At the margins of application, as it were, 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 from other countries to the United States embody, in fact, governmental actions. They burden American consumers without yielding revenue, as would a tariff.

Growth of International Exchange

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

There has been growth. Measurement of the increase from decade to decade presents problems. The creation of two or more countries, where there was one, has sometimes made what would have been domestic trade into international --East-West Germany, for example. 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--various kinds of services, as well as smuggling, escape counting, and record keeping is incomplete. Many final products consist of the assembly of

parts fabricated in several different countries, frequently by the same multinational company.

Yet a few figures are at least suggestive. [Data to be supplied. They will show impressive expansion.]

One conclusion must stand out: the growth of international trade, both goods and services, has been very great indeed. The same applies to both short- and long-term investment of capital.

Economic Progress

This growth of international trade and investment has been part of striking economic progress. Try to compare economic conditions five or four or three decades ago with those 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 treaty power, as against Congressional determination of specific tariff rates.)

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 remarkable improvement in levels of living.

One source 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. U.S. 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. (These figures show orders of magnitude, not precise amounts.)

Benefits of Free Trade: A Few Words on a Subject That Deserves Many

When foreign trade grows from year to year, people must not only expect to benefit, but also succeed in doing so.

The reason 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 conditions vary. 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. Through history the accumulations of capital equipment and human skills differ widely over the world. Trade permits consumers and producers, even those in lands not yet developed, to draw through international commerce 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 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 their 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 often permits lower cost per unit. There are economies of scale--the larger the scale of output, the lower the cost per unit. The lowest cost, benefiting all customers, may require volumes of output for which markets in just one country are too small.

The freer that trade is over the world, the greater the forces of competition. Tendencies toward monopoly are weakened by competition in a larger area. As obstacles are reduced, opportunity increases 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.

Moves to Reduce Man-made Barriers and to Erect New Ones

The last half century--especially the period after World War II--has seen drastic reduction in tariffs and the freeing of currency movements and investment. Moreover, agreements among governments to resist pressures to erect new obstacles have undoubtedly headed off moves to create new barriers and to raise old ones.

Some Examples of Tariff Rate Reduction

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. Political leadership continues generally to endorse support for encouraging trade. (Lip service is not always matched by action.) The widely articulated intellectual support for

freedom may have had inspiration in Henry George's work, but any connection in forming opinion will have been rather long ago.

Today, however, there are still all too many restrictions 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 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 new impediments to world trade. For a time, but less so today, I feel, planners for the development of poor economies often believed trade restrictions could be used to advance progress. Mercantilist-type considerations to encourage exports account for some government export subsidies that lead other governments to complain of unfairness and counter with obstacles. Actual or alleged dumping, e.g., selling abroad at prices below those at home, may lead others to impose burdens such as U.S. countervailing duties. Buy American laws give domestic sellers preference. Some governments impose domestic content requirements, e.g., 50 percent of the final value of a product must consist of domestic input (labor and components).

PROTECTION OR FREE TRADE, 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 convincing.

Why Propose Restrictions ("Protection")?

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 its connotations of something good.) Some arguments are the same. But there are elements that are modern. Space considerations limit comments here.

Let us note a general reality of great significance: always there will be what someone believes to be opportunity to do good things by somehow concentrating on a relatively small range--but not "for free." There will be costs. They may be completely or largely hidden. Typically they take small amounts from each of many to provide relatively large benefits for the few.

This type of imbalance exists often. For example, the broadcaster just told 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." As an

economist, however, I know that U.S. trade restrictions keep sugar prices in this country at a multiple of the free world market price.

Where discrepancies--much for a few taken from millions in small amounts--result from free choice, such as patronage of professional athletics, one can approve (without necessarily applauding) the choices of others. But when the coercive power of government is used to force some or many to pay others without any assurance, presumption, or perhaps even pretense, of informed consent, must we not condemn the process?

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

The few 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. Much evidence confirms the reality of the learning curve--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 (Henry George's figure of speech).

The use of tariffs and other restrictions as instruments for bargaining has received support in Congress. The usual case says to foreign nations, 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 will therefore impose burdens at home that reduce this unfair competition for American producers."

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

Another consideration for the United States differs from anything of Henry George's day--consideration for the continuing deficit in the balance of international payments. Will not putting quotas, tariffs, and other restrictions on imports help to reduce imports and improve 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 lower real income.

- National defense looms larger in American life today than in Henry George's day, 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. I would be reluctant to pass judgments on specific cases 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. A variety of objectives is sought. 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, the Republic of China, Iran, and the Soviet Union.

One set of considerations involves the desirability of the noneconomic foreign policy goals. Are they highly meritorious? Or are they of dubious merit? Or definitely wrong?

Then there will be consideration of the effectiveness of the trade restrictions in achieving the goal(s). Will they 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 the cost relative to the probable benefit. Will generally friendly countries cooperate, or try to take advantage of new opportunities to fill gaps left by the U.S. withdrawal? And no good answer may be available. The reactions of others are unknowable, although one may draw upon some past experience for guidance. While reason and available evidence may lead to likely conclusions, most often one deals with unique situations with no comparable precedents.

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

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 when conditions warrant. Beware of creating new special interests resting upon the trade restrictions.

The temptation to misuse potential by positive arguments for 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 better condition economically.

Choices for Georgists

For a group like ours there may well be a question as to the division of our limited resources of time, money, and interest between issues of land and those of freedom of international trade. Many of us have concentrated on matters of land policy. These issues are important, and we all know that accomplishments over many years leave much to be desired. We see that human welfare could be advanced by taking steps that are possible in revising the taxation of property. Short of the long-run goals we seek, there are attainable objectives to keep working for.

On questions of land policy, the scenes of action in this country will be local or statewide. And there are so many localities! Compared with the potential for human benefit, what we can realistically hope to achieve will be distressingly limited. Where property taxes are highest (some older cities and some suburbs) and thus the potentials for benefit from our message the greatest, the outlook for major change must seem less than promising. In Pennsylvania, where success stories are realities, the portion of the property tax embodied in change is less than the whole. (School taxes, for example, are not included.)

But we are, I believe, the only organization carrying the message of land value taxation. What gets done through persuasion will be what Georgists and their associates do. Any let-up on our part would reduce an effort that is already small relative to the magnitude of the challenge. I see little public interest, but that interest must not be allowed to flicker out.

International trade and finance, in contrast, are subjects of wide concern. Every country faces current issues of foreign economic significance. The daily news in the United States and to varying degree elsewhere 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 if the decision is to do nothing.

National, not local, governments are involved. In a sense, matters of national scope are at stake, as contrasted with one community's, or one state's, consideration of property tax revision. And 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 temptation, then, to shift our efforts to freer international trade will be immense. Might we not hope to make a difference in the debates that will be taking place?

Georgists would, I believe, be less concerned with specific issues of detail than with general principles. And as Henry George knew, principles are important. Our potential lies in providing the public with the kind of statement of principles that Henry George has given.

His language is so vivid that it can serve today. It is timeless. Does the fact that George's 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 in this country and elsewhere today seems to be, the depth of conviction as to principle of economic freedom can certainly use support. Where it is weak, additional effort on our part could contribute to constructive action.

However, unlike their role in property tax reform, Georgists would not be the only advocates of the principles of international economics we endorse. There are others providing support for freedom of international exchange--for fewer obstacles. Not all carry the full message we would hope to convey. But our role in support of free trade would be less crucial than it is in our efforts for property tax reform.

Free trade deserves our continuing support, but we must never forget that we have a big job to do in property tax reform.