Chinese Electric Cars

By: Mike Curtis

With a tariff, we do to our own citizens in times of peace what we do to our enemies with a blockade in times of war — make it more difficult to get valuable products from other countries. That was the wisdom of Henry George in 1886.

If each party did not get a greater value than the one they gave, no one would trade. Getting something you value more than the thing you give is instinctive. Yet we are told by vested interests that the more we export, and the less we import, the more prosperous we become, and all too many American workers believe it.

A tariff on electric vehicles from China is the latest example. Biden has endorsed Auto Union and its part in making electric cars. Now, he is raising the tariff on electric vehicles from China. It was already 25 percent; now it's 100%. The U.S. auto industry has invested in electric car technology and was about to increase production grossly.

However, China is now subsidizing its electric car production and will soon offer its cars to the American market. It has been reported that If it weren't for the tariff, they would sell for a third of the price of the American-made electric cars. That would have meant a lot of dollars spent on research and development, and plants and equipment in the U.S. would have been lost. The patents would have had little if any, value, and there wouldn't have been higher-paid union jobs making electric cars in the U.S.

On the other hand, with electric cars costing a third of what they did before, Americans would soon have a cleaner environment with fewer carbon dioxide emissions, fewer maintenance expenses, and a gross reduction in the cost of each person's transportation.

Not only is it unfair to subsidize the auto workers at the expense of all workers who consume the protected products, but the higher pay of the union auto workers is a tiny fraction of the higher prices paid for the product with the tariff. The difference in price is much higher than the added wage and the added profit combined. American manufacturers' protected (tariffed) products are less efficient, less subsidized, or both. It would cost the American consumer/taxpayer grossly less to simply have the government add a bonus to the pay of union auto workers — obviously unfair to all other workers, but much, much cheaper.

The history of the Ford Assembly plants in the 1920s offers insights into the world today. Sixty thousand workers did not go to work for Ford because they could produce six thousand cars a day—one car for each worker every ten days instead of a lifetime. They went to work for Ford because they got better food, clothing, and shelter than they could have produced themselves, plus an automobile.

Model T. Ford cars were being sold all over the world. At one point they were so good and so cheap that half the cars in the whole world were Fords. Instead of causing unemployment in the countries they were sent to, these cars gave everyone a cheaper cost of transportation, a greater level of productivity, and a higher standard of living.

Working people are well aware they do not share in the profits of their employer. That is why they are not concerned with the greater value of imports over exports. They are focused on the demand for workers with their particular skills and knowledge. Protected products require more work to produce, and that is the reason so many working people think tariffs are good.

As wonderful as it would be, the Chinese government is not willing to send electric vehicles to America for free. Nonetheless, they are as foolish and corrupt in subsidizing electric cars sent to America as the American government is when it subsidizes agriculture and manufacturing.

Trade can never reduce the demand for workers, including the lowest paid — simply because human wants are insatiable, and workers are needed to produce the things given in exchange. Nor can tariffs and trade restrictions increase the total demand for American workers or raise the general level of wages — because higher prices do not increase the market demand for products.

However, when a company shuts down a factory in the U.S. and opens one in another country, American workers logically assume that the jobs have been exported. The jobs are lost when a factory is shut down — when the land is not cleaned up, sold to the highest bidder, and repurposed. Go through Philadelphia on the train. You will see thousands of acres of polluted industrial land with abandoned factories sitting idle and collecting trash. This land once employed hundreds of thousands of workers. In many cases, it costs more to clean up the polluted land than it could be sold for. But, even if the government has to pay for the clean-up, these sites, which have access to the railroads and industrial utilities, could be rejuvenated and repurposed, providing needed job opportunities. This is equally true of all our large old industrial cities.

Returning to Trade, the auto industry is a perfect example of why higher-paid union workers support a tariff on electric cars. Although domestically made EVs (electric vehicles) are far more expensive than imports without the tariff, they allow greater profits, from which the auto company can pay higher union wages and still make high profits. If the tariffs are sustained, depending on the margin of profit, other investors will be encouraged to get into the business. They may buy stock in existing car companies or invest in new companies. Even without the patents, facilities, and prior know-how, the higher prices will draw domestic competition. The larger number of cars for sale from domestic competition will tend to reduce the price of cars and the margin of profit.

However, because of the subsidies and cheaper cost of production, Chinese cars without tariffs would still be much more affordable.

With tariffs increasing the price of Chinese cars, more American-made electric vehicles will be sold. It will increase the profits of those with patents, and the demand for domestic materials to make the batteries and motors will also increase. That will raise the value of land from which the materials are drawn to make the batteries and electric motors. And, as with all restrictions on Trade, the increase in the value of land containing the materials and offering an advantage in producing electric vehicles (or any protected product) is offset by a reduction in the value of land that was needed to produce the things for which the protected product would have been traded, like aircraft, petroleum products, or food.

However, because Americans can produce the things they would have traded more efficiently than the tariff-protected products, it causes a drop in the Gross Domestic Product of the U.S. The fall in the G.D.P. is equal to the higher amount paid by Americans for the protected products. Because of the higher cost of production, the profits of the protected corporations (In this case, the car makers) are a fraction of what it costs the American public at higher prices.

We want to trade with the people of other countries, and for the same reason, we want to trade with the people in our own country: we get the products we want with less labor than we would need to make them ourselves.

The diversity of nature impels us to trade. Minerals, soil, and climate give different regions an advantage in making specific things. Long traditions, cultural focus, and mutual support give a synergistic dividend in making certain products. That is why different communities are known for a high quality of certain products — Swiss watches, Japanese cameras, and German high performance luxury cars.

Even if one country can produce and sell everything cheaper than another, international trade still benefits both countries. David Ricardo explained this in 1817 as the Law of Comparative Advantage.

It is the same reason that first and second-class carpenters work together. The first-class carpenter can do every job faster than the second-class carpenter. He can construct the roof and build the stairs five times faster; he can frame the windows and hang the doors twice as fast. He can even hammer the nails and sweep the floor a little bit faster. However, by allocating the most difficult jobs to the first-class carpenter and the easiest jobs to the second-class carpenter, they can build two houses far more than twice as fast as either of them could have built a single home.

A modern industrial country like the U.S. could likely produce chemicals, Pharmaceuticals, and (by investing in the right machinery) Knitted and crocheted clothing more efficiently than a country like Bangladesh. However, by applying the same labor and capital to making more chemicals and Pharmaceuticals instead of knitted and crocheted clothing and trading chemicals and Pharmaceuticals for Knitted and crocheted clothing, the U.S. would get more Knitted and crocheted clothing than they would have produced with the same amount of labor and capital.

Bangladesh could make its own chemicals and Pharmaceuticals in addition to Knitted and crocheted clothing, but bytrading, they get more chemicals and Pharmaceuticals than the same amount of labor and capital would have produced. That is the mutual benefit of the comparative advantage.

The erroneous plausibility of tariffs comes from the fact that the more (greater value) a business sells, and the less it buys, the greater its profits. Yet a moments reflection will show that it is not the value of the products given, but the greater value of the products received that is the measure of a profitable exchange.

Through the use of credits and reserve currencies, a country will often send products to one country and receive back products from other countries. So, what really counts is not the value of the products sent out (exported) but the value of the products received (imported) in exchange. In other words, it is not the money or credits received but what the money or credits buy that really counts. No transaction is complete until the money or credit received is actually spent.

Tariffs, quotas, and other trade restrictions certainly do result in more labor and capital being needed to produce the very same things we need and want, but they can not create jobs. The idea that the more a nation exports and the less it imports, the more jobs and prosperity are generated is absurd. Were it carried to its logical conclusion, we would attempt to export everything and import nothing as we starved to death. Yet upon this assumption, countries negotiate trade agreements in which all countries are trying to export more than they import — a physical impossibility simply because the exports of one country are the imports of another. If the value of imports weren't more incredible than the value of exports, no one would be inclined to trade.

Free Trade is simply an expression of a natural inclination to economize our efforts — to satisfy our desires with the least exertion. It directs each person and each entity to produce the things that will ultimately give them the most of what they want with the least effort. Trade enables the specialization of effort and the economies that are the hallmarks of an advancing civilization. International Trade is simply an expansion of the cooperation that naturally takes place within every community. Any country that allowed its people to freely trade legal products with the people of all other countries would grossly increase their general level of productivity (Total production of wealth).

Tariffs are intended to give an advantage (Protection) to companies that make similar products within a country. However, we have many taxes on Trade within our country for the purpose of revenue. They do not divert labor and capital from their most efficient applications to the same degree as an import tariff, but they do stifle Trade. Trade is the most significant way that the results of labor are increased, so taxes on Trade reduce the incentive to trade by the amount of the tax. If a person works on their own house, there is no tax, but if you hire someone else to work on your house while you fix their car or someone else's car, a gross receipts tax discourages the Trade.

All increases in productivity increase the fund from which the legal Minimum Wage, Social Security, Medicare, and welfare must come. But, under the present circumstances, no increase in productivity increases the number of jobs or raises wages in the long run. In fact, as long as the Earth (land) on which we live and from which we make things is treated as private property, all increases in productivity tend, ultimately, to go to the owners of the Earth and other government-granted monopolies.

We grant title (exclusive possession) to land (portions of the Earth) so people can securely keep what is produced upon it: crops, houses, factories, machinery, and the minerals that are being extracted. But in granting title to land, we give most owners of land an advantage over others. All parcels of land do not offer the same quality of opportunity. All parcels of land do not have value, and all parcels of land do not increase in value at the same rate.

In the expectation that the advantage that attaches to land will increase (with the increase in population, invention, and infrastructure), it is too often hoarded and held unused or underused. Idle and underused land moves labor and capital to less potentially productive locations and reduces the total production of the country. No matter how big the country is or how few people it has, private property in the land will encourage enough hoarding to cause unemployment and a shortage of housing. And that, rather than Free Trade, is the cause of unemployment and low wages.

The rate of wages without the Minimum Wage, etc., is set by what a person could have produced on the best natural opportunity that is freely accessible — for no one will work for another unless they are paid more than they could have produced working for themself. No one will pay you significantly more than you could have produced working for yourself. America had the highest wages in the world until the late 1800s because there was access to free or cheap quality land for homesteading. In the absence of free land (the reality today), wages tend to be a bare subsistence for the least productive workers (superseded by the Minimum Wage, etc).

Those with greater skill and knowledge get just enough above the least productive workers to incentivize the accumulation of knowledge and skill — supply and demand for superior workers.

All taxes that are simply taken from the taxpayer without giving an equal value in exchange could be eliminated. That would be taxes levied on the value of things traded, including wages for labor. Governments could then be supported by collecting the rental value of land from those given title and exclusive possession.

That would prevent hoarding. All valuable land would be put to its full potential, creating a free-land opportunity — ensuring full employment, ample housing, and wages that are equal to the best natural opportunity that is freely available. The rental value of land would give the government ample revenue for infrastructure and public service, as well as social programs and the advancement of civilization.

In the interest of the environment, the U.S. government could have paid for the research and development of electric cars in the same way that public necessity required developing COVID-19 vaccines. The technology would then have been free to all Americans who wanted to make electric cars. However, this is unnecessary because the Chinese have already developed electric cars and are willing to trade them for products that cost Americans one-third as much as it does to make electric cars.

Full text of Protection or Free Trade by Henry George:
http://www.henrygeorgeacademy.org/books.html