

Course: Protection or Free Trade

A 6 lesson course is based on the classic, Protection or Free Trade, by Henry George.

This text is essentially the study guide used by Robert Clancy and possibly before him. It has been reworded from the question and answer format with a small amount of editing, some additions, and modern references to an outline of the arguments. Changes by Mike Curtis

It, explores a crucial question in the world today: whether trade between countries ought to be restricted, and whether the workers and business (labor and capital) of a country can or should be protected from the competition of labor and capital in other countries. In so doing, it uncovers the economic problem beneath that of trade.

Many situations are the same today as in George's day *Protection or Free Trade* was written in 1886, and you will note the same penetration to the heart of the problem as George showed in *Progress and Poverty*. Some situations have changed over the course of the years, and where this is the case, study supplements accompany the lessons and survey the matter. It is however, noteworthy how many of today's problems are the same, because the underlying principles do not change.

Lesson I - Introductory

Lesson II - Protection as a policy

Lesson III - Trade and Tariffs

Lesson IV - Money and profits

Lesson V - Protection and Wages

Lesson VI - True Free Trade

"We cannot safely leave politics to politicians or political economy to college professors. The people themselves must think, because the people alone must act." Henry George

Questions to be explored:

1. Is a tariff different from other taxes?
2. Can we safely eliminate all tariffs, quotas, and reciprocal trade agreements?
3. Would free trade benefit everyone in a country?
4. Does unrestricted "dumping" of goods into a country throw people out of work?
5. Is trade with an unfriendly country desirable?
6. Is the income from government bonds the same as the income from buildings & machinery?
7. Do low wages necessarily mean low cost of production?
8. Is trade within a country basically different from trade between countries?
9. Does technology throw people out of work?
10. Does increased production mean increased wages?

Lesson I Introduction to Protection & International Trade

From the inception of the U. S. Constitution in 1789, tariffs (import taxes) were a major source of Federal revenue. This continued until 1913 when they began to shift in favor of the income tax. However, as a means of protecting American industries, the tariff remained a powerful force until 1933, in the depths of the great depression.

Tariffs were raised and lowered many times over the years, with a multitude of different rates for different products, but in 1933, the average tariff was all the way up to 54%. By 1963 the average tariff was only 12%. From the middle of the 1970s to the middle of the 1980s there were increases in protection, but they took the form of Quotas and Import Limitation Agreements. These were substituted for tariffs that were scheduled to be phased out over several years under the General Agreement on Tariffs and Trade, which is a treaty signed by approximately 100 nations. In 1997 the tariffs on automobiles and steel were less than 3%, but the tariffs on textiles, which included clothing, were still between 25 and 30%. However, the intention was, and still is, to phase them out over several years. In 2005 the World Trade Organization, which subsequently facilitated the agreements, had over 150 member nations. None-the-less, the average tariff was a mere 3%, with most products imported from Mexico and Canada having no tariffs or quotas at all under the North American Free Trade Agreement.

While trade agreements like that of NAFTA (North American Free Trade Agreement) include hundreds of pages of provisions that have nothing to do with trade (infringe on national sovereignty), a tendency continues in the reduction of restrictions and penalties to trade.

Today, many of the corporations that were in the past advocates of protection, have established facilities in other countries and are now sending goods to the United States. Others are importing component parts which are incorporated into American products. In both cases, tariffs diminish their profits, so, many of them have reversed their positions, and are now in favor of free trade agreements.

At the same time, the decrease in tariffs and quotas is coexisting with the loss of many high wage manufacturing jobs. Many of those workers who were displaced by imports, are asking for tariffs and quotas to protect them from corporations which they believe are "exporting jobs to countries where they believe low paid labor will eventually pull American wages to the same bare subsistence".

In 2012 the U.S. Exported 2.2 trillion dollars worth of goods, and imported 2.7 trillion dollars worth of goods — resulting in a trade deficit of 540 billion dollars. Imports were 17% and exports were 14% of Gross Domestic Product respectively. The trade deficit was 3.4% of G.D.P.

The goal: to examine International Trade to the extent that there is no doubt whether tariffs or deterrents, or, whether true free trade is in the best interest of those who work for a living.

Lesson II Protection as a Policy

Protection or Free Trade, Chapters I - VII. Page numbers are in parenthesis.

Protection, as a national policy

1. Protection as a national policy consists of duties (taxes) and quotas (a limit to a certain specified numbers of designated products) imposed on imported products for the purpose of protecting producers of similar products within a country from foreign competition. (28 - supplement 1.)
2. In promoting protection as a national policy protectionists contend that tariffs and quotas secure a higher level of prosperity — more jobs at higher wages — within a country than would be possible with free trade (28)
3. It is not correct to assume that because the United States levied import taxes, and more recently quotas, (protection) that the growth and prosperity of the country were due to it: *post hoc, ergo propter hoc, After this, therefore because of this.* Because a thing exists with or follows another thing is not proof that it is because of that other thing.? (23-24)
4. The prosperity of a special interest group does not necessarily add to the prosperity of the nation. Special interest groups usually seek to benefit themselves. It is often at the expense of the rest of the nation. For example: farm subsidies, which raise taxes for everyone else, are promoted on the basis that it is good for the country as a whole to have more profitable farms. (11-12)
5. If all nations diminished imports, it would not increase the prosperity of the world. It couldn't. "Although the advocates of protection sometimes complain that the protective policies of other countries are injurious to us, they contend that (at least up to a certain point in national development) protection is everywhere beneficial to a nation and free trade is everywhere injurious. That prosperous nations have built up their prosperity by protection, and that all nations that would be prosperous must adopt that policy." H.G. (29-30)
6. Protectionists claim the tariff (taxes on imported goods) shields labor from the competition of lower paid foreign workers, and thus raises wages. "Working-men generally feel that they do not get a fair reward for their labor. They know that what prevents them from successfully demanding higher wages is the competition of others anxious for work, and they are naturally disposed to favor the doctrine or party that proposes to shield them from competition. This its advocates urge is the aim of protection. And, whatever protection does accomplish, protectionists at least profess regard for the working-classes, and proclaim their desire to use the powers of government to raise and maintain wages". H.G. (19)
7. Advocating protection for labor. Henry George believed that to say that labor needs protection, is to imply its inferiority "That freedom of trade is advocated by those who have no sympathy with labor should not prejudice us against it." H.G. (21)
8. In modern times the principle of free trade has been given its best trial within the United States. The U.S. constitution prohibited tariffs between the states. It enabled the country to evolve into what has been

the world's largest free trade community in modern times. (15-16) At some point the U.S. may be surpassed by the European Union, or China and India, both of which have around four times the population of the U.S.

Implications of Protection

9. If the protective theory is valid, it must be capable of universal application. “. . . their arguments must be universal to have any plausibility, for it would be absurd to assert that a theory of national growth and prosperity applies to some countries and not others. (28-29)

10. If the protective theory is valid, should it not be extended to include states, counties, cities, neighborhoods and families. Should not the various sections of every large country institute tariffs of their own to shelter their industries from the competition of other sections? Shouldn't the reason why no people should obtain from abroad anything they might make at home, apply as well to the family? (30)

11. The protective theory implies an opposition of national interests. All countries could not export more than they import. In fact, by each country attempting to export more than they import, each country is attempting to get an advantage over others, and prevent others from getting and advantage over it. (31)

12. Most citizens of all countries are inclined to resist the payment of customs duties when the opportunity presents itself. What about yourself? (34-35)

13. The reason people resist paying duties: "...even among believers in protection, are there any who really think such evasions are wrong" "That unscrupulous men, for their own private advantage, break laws intended for the general good proves nothing; but that no one really feels smuggling to be wrong proves a good deal." "To make that a crime by statute which is no crime in morals, is inevitably to destroy respect for law..." "H.G. (32-34) Does carrying something across a political border diminish your moral right to own it?

14. The aim of protection, "In short, . . . is to prevent the bringing into a country of things in themselves useful and valuable, in order to increase the rewards of making such things within the country." H.G. In the early days of the United States there were tariffs on iron, nails, glass and rope. (36)

15. The only kind of international trade Protectionist would permit, is the importation of things that cannot reasonably be produced within a country, like chrome, bananas, and coffee in the United States. (40-43)

The Nature of Trade

16. A nation does not force its goods upon another nation when it exports them. There cannot be a trade unless both parties to it agree? (46)

17. The difference between a military blockade and a tariff is that: A blockade is intended to prevent your enemies from getting foreign products. A tariff discourages your own people from buying foreign products.

In the words of Henry George "**We do to our own people with a tariff in time of peace, what we do to our enemies, with a blockade, in time of war.**" We impede the importation of valuable products. (47)

18. People want to trade because it enables them to get more of the things that they, themselves, want than if they produced them directly? (50-51;55)

Axiom # 1. Humans seek to satisfy their desires with the least exertion.

"Men of different nations trade with each other for the same reason that men of the same nation do --- because they find it profitable; because they thus obtain what they want with less labor than they otherwise could." H.G.

19. We find the first accumulations of wealth, and the beginnings of civilizations where nature is most generous in climate, soil and minerals, or where rivers join, valleys cross and trade is most efficient?

20. The diversity of nature impels people to trade. Regional differences in climate, soil, and mineral deposits offer special advantages in the production of different products? (52-53; supplement)

21. There are the advantages in developing different skills and industries in different countries. They tend to expand the total body of knowledge and skills acquired. They increase the benefits from economies of scale (producing many units of the same thing). (57-58)

"...as there are differences between individuals which fit them for different branches of production, so, but to a much greater degree, are there such differences between communities. Not to speak again of the differences due to situation and natural facilities, some things can be produced with greater relative advantage where population is sparse, others where it is dense, and differences in industrial development, in habits, customs and related occupations, produce differences in relative adaptation. Such gains, moreover, as attend the division of labor between individuals, attend also the division of labor between communities, and lead to that localization of industry which causes different places to become noted for different industries. Wherever the production of some special thing becomes the leading industry, skill is more easily acquired, and is carried to a higher pitch, supplies are most readily procured, auxiliary and correlative occupations grow up, and a larger scale of production leads to the employment of more efficient methods. Thus in the natural development of society trade brings about differentiation's of industry between communities as between individuals, and with similar benefits" H.G.

22. Enabling each nation to produce that for which it is best equipped, increases the rewards and therefore stimulates production.

"Any one can see what would be the result of forbidding each individual to obtain from another any commodity or service which he himself was naturally fitted to produce or perform. Such a regulation, were any government mad enough to adopt it and powerful enough to maintain it, would paralyze the forces that make civilization possible and soon convert the most populous and wealthy country into a howling wilderness. The restriction which protection would impose upon foreign trade differs only in degree, not in kind, from such restrictions as these." H.G.

23. Consider some of the things consumed in the U.S. that are produced in other countries. Some were produced in the countries they were because of the peculiarities of nature, like chrome from South Africa or coffee from Honduras; other things were produced where they were because of great efficiency from long experience and mutual support systems, like Swiss watches; and some things were both, like autos from iron rich Michigan and the long experience of making cars in Detroit — also known as Motor City.

SUPPLEMENT LESSON II

1. SOME DEFINITIONS

TRADE: The exchange of commodities for commodities. International trade is trade between parties of different countries. Trade may be carried on directly, called *barter*; or indirectly, through the use of money; but the trade is not completed until the money is again exchanged for commodities. Ultimately, all trade is barter, the exchange of goods for goods. Trade has been called “a two-way street.” It is a voluntary, freely entered contract in which both parties benefit. Thus trade is also “a two-way profit.” Each trading party receives something more desirable than that which was given in exchange.

TARIFF: A levy or duty upon goods coming into a country, imposed by the government of that country. Also known as a customs duty. Tariffs for public revenue are usually imposed upon imported products. Protective tariffs are for the purpose of protecting domestic producers against foreign competitors, and thus are levied on imports of goods which are also produced domestically. It is the latter type of tariff which is most in dispute. Ambrose Bierce, in *The Devil's Dictionary*, defines a protective tariff thus: “A scale of duties levied on imports, designed to protect the domestic manufacturer from the greed of his consumers.”

IMPORT: An item of wealth brought into a country, usually for sale.

EXPORT: Any item of wealth sent out of a country, usually for sale abroad.

BALANCE OF TRADE: The ratio of exports to imports. A “favorable” balance of trade is said to occur when the value of a nation's exports exceeds that of its imports, so that other nations owe it money or gold. An “unfavorable” balance of trade is said to occur when a nation imports more in value than it exports and thus owes money or gold to other nations. These are the commonly used meanings (derived from mercantilist doctrines), not those of fundamental economics.

BALANCE OF PAYMENTS: The amount of credits and debits accumulated from the total trade transactions of the people of one country with other countries, usually calculated annually.

TRADE AGREEMENTS: These cover a variety of arrangements, all most all of which fall short of full free trade. The government of one nation may agree with the government of another nation to allow their respective citizens to exchange certain articles of wealth. *Quotas* are negotiated limitations on imports. *Bilateral agreements* are undertaken between two nations, and *Multilateral agreement* are undertaken when several nations are involved. A *trade bloc* is a grouping of nations which have agreed to reduce or eliminate tariffs among themselves but erect a common tariff wall against other countries. Large monopolistic companies also make agreements among themselves on prices, supply, etc. These are known as *cartels*, and may occur internationally or within one nation.

TAX: A compulsory contribution levied upon persons, property or business, for the support of government. A *direct tax* is one paid directly to the government by the party or property-owner on whom it is levied. An *indirect tax* is one which the party on whom it is levied passes it on to another party, usually in the purchase price of the item taxed. An *ad valorem tax* is one based upon the value of the thing taxed.

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Quiz on lesson II in Applied Economics

1. What is a tax? _____
2. What is international trade? _____
3. What is an import? _____
4. What is an export? _____
5. What is considered, in common meaning, a "favorable balance of trade"? _____

6. What is considered, in common meaning, an "unfavorable balance of trade"? _____

7. What is a tariff? _____
8. What two purposes are tariffs used for? _____

9. In 1933 the average tariff was 54%. In 1996? the average tariff was 3%__ 10%__ 15%__
10. In promoting protective tariffs, the advocates claim it will protect: the stockholders from the competition of other companies in countries where labor is cheap. (a)() Or, it will protect the workers against the competition of low paid workers of other countries. (b)()
11. With a population of 300 million people, the policy of free trade between the states, within the United States, has given the free trade principle its best trial in modern times. What document prevented Pennsylvania from levying a tariff against products from New Jersey?

13. What kinds of products would protectionists allow into a country without tariffs? _____
14. Is trade voluntary? _____ 15. Why do people trade? _____
16. Does discouraging people from buying foreign made products, and therefore encouraging the purchase of more expensive domestic made products, increases (a)() or decrease (b)() the total cost of production?

Lesson III Trade and Tariffs

Protection of Free Trade, Chapters VIII - XII

Page numbers are in parenthesis.

1. Exchange is part of production. Production includes all actions which help in getting a natural resource to the consumer in the desired form. (61 - 63)
2. Merchants and Middlemen add to the sum total of satisfaction. (64 - 66)
3. The “middleman” plays a part in production. He stores products and makes them available. He enables consumers to buy them in small quantities when and where they are wanted at their convenience (preferred by most consumers over buying directly from factories). He acts as a stabilizer of supply and demand in the market. He is a producer.
4. The original purpose of tariffs was to raise revenue. Tariffs for protection came later. (69)
5. The difference between a tariff for revenue and a protective tariff: A tariff for revenue depends upon products coming into a country. A tariff for protection aims at keeping products out. The more a protective tariff succeeds in discouraging imports, the more it reduces revenue. The more a revenue tariff succeeds in generating revenue, the less it discourages imports. They differ only in their purpose. The two different kinds of tariffs working at cross purposes. (69, 70; 80)

Direct and Indirect Taxes

6. Indirect taxes, by definition, are paid to an intermediary like a merchant who collects a sales tax. Or a gasoline company which pays the tax before the product is sold (70-73)
7. Direct taxes, by definition, are paid directly by the taxpayer to the government, like the Real Estate tax, or corporate income tax (70-73)
8. The advantages and disadvantages of indirect taxation: They yield large revenues, but it is expensive for governments to make sure that the private tax collectors are paying the government. They tempt corruption. Indirect taxes are difficult to resist; if you want to buy the good or service, you must pay the tax, and you do not usually know how much tax you are paying as is well known with tariffs, gasoline or alcoholic beverages.
9. The class of people on which indirect taxation bears most heavily: The greatest revenues are generally not derived from expensive items consumed only by the rich, but by the products consumed by the largest group of citizens, which include the poor. In states where food, clothing and shelter are exempt from the sales tax, it bears much less heavily on the poor. It also yields less revenue than the flat income or the wage taxes when levied at the same rates. (71-72)

Throughout much of U.S. history tariffs were relied on for federal revenue. In recent times import taxes, except for certain products, have been minimal. The federal income tax, which replaced them and falls on wages and interest, also increases the cost of production, but not in the same way or nearly to the same extent as a tariff.

10. The effect of indirect taxation on small business. Taxes, like tariffs, alcohol, tobacco, and gasoline, have to be paid before the retailer receives the product. This increases the necessary investment in inventory, and diminishes the number of people who can afford to conduct a small business. (75-76)

Domestic Industries

11. Besides tariffs, there are other methods that could be used to protect domestic industries. 1. the destruction of imports; 2. Bounties (subsidies) paid to domestic producers; and 3. Drawbacks (bounties paid on exports). (81-85)

12. The bounty system compared with the protective tariff: The bounty (subsidy) system would entail a definite and visible cost; aside from increasing the general level of taxes, it would not discourage or handicap other industries that were dependent upon the use of protected products; and when its need, if any, were gone, it could more readily be revoked. However, both tariffs and bounties divert labor and capital from their most efficient applications and lead to corruption. (82-83)

13. The advocates of protection claim their tariff will encourage home industry by increasing prices, and indirectly increasing the profits of home industry. By increasing profits, the advocates of protection claim their tariff will attract new producers and encourage home industry. (87-89)

14. There are two ways to determine what industries are desirable in any community. It can be done by a referendum of voters or their representatives, or by the ability of producers to sustain themselves and make a profit in the free market. (96-97) The latter lets consumer demand determine the outcome.

15. The effects of protecting infant industries have been they remain infant industries. The Textile industry was considered an infant industry during the early years of the United States. After more than 200 years of protection, it is still unable to compete in the free market. (98)

Exports and Imports

16. The effect of keeping home markets for home producers: When countries refuse to take advantage of the productions other countries they limit themselves to their own productions.

17. The people of a country do not profit when their trade is restricted to their own products — any more than an individual profits from refusing to trade with others. It diminishes the benefits from regional differences in soil, minerals and climate, the division of labor and economies of scale. (103-106)

" If at any given time, in any given place, a certain commodity cannot be produced for as low a price as it can be imported for, this is not necessarily proof that it would take more labor to produce it in that given place, but it is proof that labor there and then can be more profitably employed. And when industry is diverted from more profitable to less profitable occupations, though the capital and labor so transferred may be compensated by duties or bounties, there must be a loss to the people as a whole." H.G.

18. The common meaning, of "a favorable balance of trade " is when the value of exports exceeds the value of imports. The common meaning, of "an unfavorable balance of trade is when the value of imports exceed the value of exports. However, this cannot be true. (112)

19. Using this common meaning, if everything produced within a country was exported, and nothing was imported, it would have a most favorable balance of trade. But, not only would this country not be prosperous, its people would starve. (112-114)

20. Exports and imports correlative. It would be impossible to restrict imports without diminishing exports. (116) People would not be willing to send products out of the country, if they got nothing in return for them.

21. International trade is profitable to all countries engaged in it. "In a profitable international trade the value of imports will always exceed the value of exports that pay for them, just as in a profitable trading voyage the return cargo must exceed in value the cargo carried out. This is possible to all the nations that are parties to commerce, for in a normal trade commodities are carried from places where they are relatively cheap to places where they are relatively dear, and their value is thus increased by the transportation, so that a cargo arriving at its destination has a higher value than on leaving the port of its exportation." H.G. (116)

"But on the theory that a trade is profitable only when exports exceed imports, the only way for all countries to trade profitably with one another would be to carry commodities from places where they are relatively dear to places where they are relatively cheap." H.G. (Oranges grown in green houses in Maine, sold in Florida)

Since the natural tendency is to get more than you give in trade, or after the cost of transportation, the same, we must explain the fact that some countries export far more than they import for many many years in a row. We may send products to one country in order to pay for products sent to us from another country, but when the total exports of a country exceed its total imports, it happens, primarily, in two ways.

The first way is for the people of one country to make investments in another. Let's say that people in Japan sent products to the United States. Instead of an equal value of products going back to Japan, they are exchanged for assets which remain in the United States. It could be an auto factory, stocks, corporate or government bonds, and Real Estate. This increases Japanese exports, without increasing Japanese imports.

The second way is for investors in one country to take profits from previous investments in another country. Let's say that Americans invested in Chinese companies during the last decade, and now they are taking profits. Products are coming into the U.S. From China; they are sold, and what is received in exchange is taken by Americans as dividends from their previous investments in China. There are no corresponding exports to China.

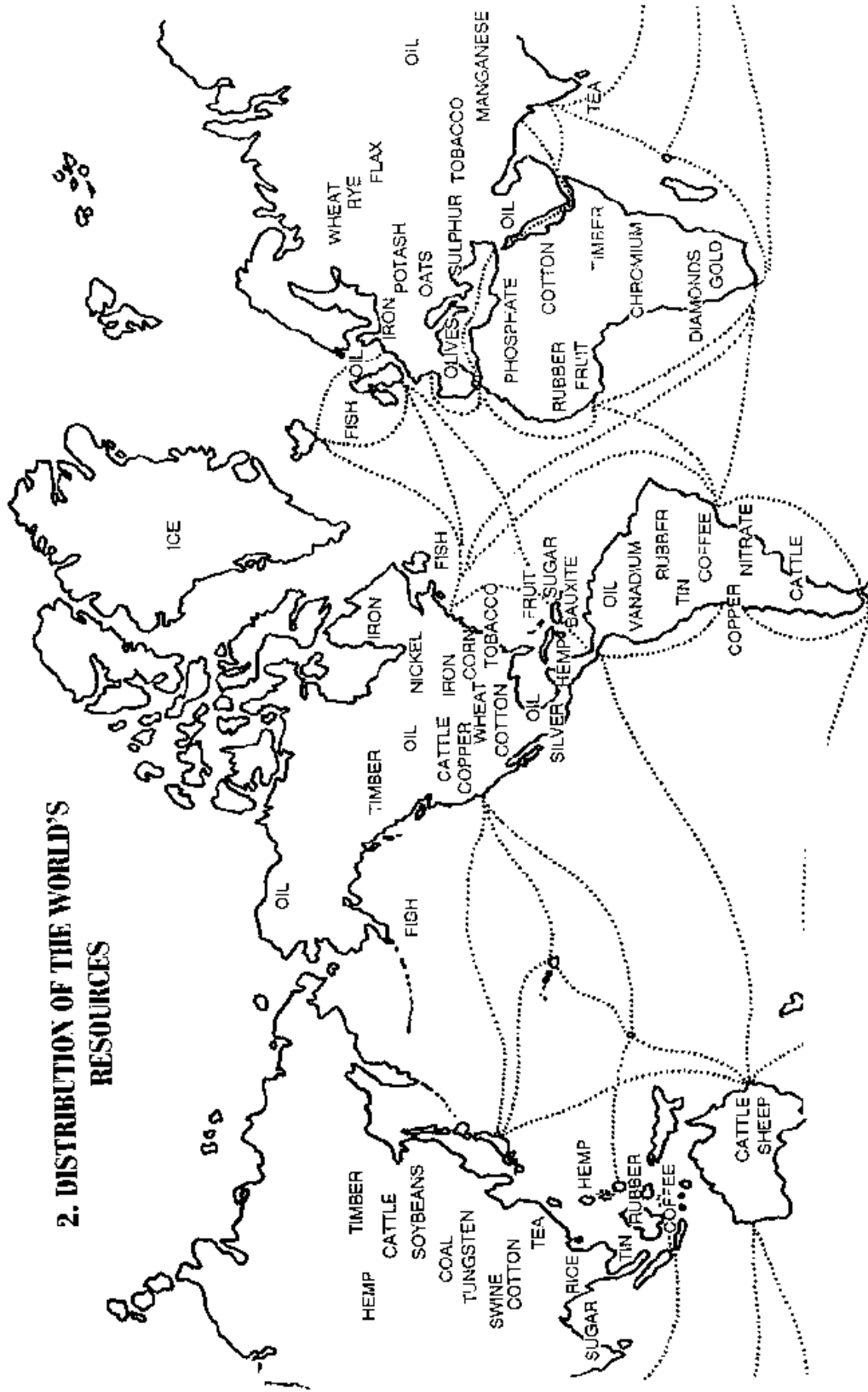
22. Even if we stopped imports entirely, some exports would continue to leave the country. Some would accrue to foreigners, representing property passing by gift or inheritance; some would be accounted for by Americans in other countries, who, by exchanging American money, are exchanging American products for the goods and services consumed abroad; and the returns from bonds, stocks and real estate acquired in the past (interest and land rent.)(119-122)

Some of these exports would represent compensation for an increase in productivity like the production of cars or highways which add even more to the Gross Domestic Product than is sent abroad in interest on the bonds. Some of these exports represent a payment for the ownership of land and other monopolies, which, having added nothing to the total wealth, take away what other people have produced.

Were we to prevent importations absolutely, we should still have to export, but instead of it being evidence of increasing prosperity, those products which represented land-rent, would be a drain on our national wealth like that which impoverished Ireland.

Under Imperialism, each empire takes far more from its subordinate countries than it gives in exchange. Although this is brought about by military force, the result is no different than if all the land in a subordinate country was owned by foreigners. It makes no difference if the person who owns the land on which you live and work is a citizen or resident of the same country. You produce and he consumes. But if he is a resident of another country, his asset is called a foreign capital investment, and his profit is welcomed as an export, and contributes to a so called "favorable balance of trade". (121-122)

2. DISTRIBUTION OF THE WORLD'S RESOURCES



Dotted lines represent principle sea routes

SUPPLEMENT LESSON III

1. FREE TRADING AREAS

As noted in *Protection or Free Trade* (pp. 15-16), the principle of free trade was given “the greatest extension it has had in modern times” in the United States, as the Federal Constitution prohibits tariffs between the states. (Prior to 1789 there had been tariffs between the states.)

Nowadays, most nations realize that it is advantageous to have a trading area greater than their own borders and they have formed trading blocs, customs unions, and free trade areas. This is not really “free trade”, as trade is regulated and there is usually a common trade barrier against outside countries. Following is a list of existing Free Trade agreements of which the U.S. is a party:

In parentheses, the abbreviation, if applicable, membership if not stated before, and the date of [coming into force](#) are to be seen (source: Wikipedia 2015).

[Israel: Israel–United States Free Trade Agreement](#) (incl. Palestinian Authority; 1985)

[North American Free Trade Agreement](#) (NAFTA) (incl. Canada and Mexico; 1994)

[Jordan: Jordan–United States Free Trade Agreement](#) (2001)

[Australia: Australia–United States Free Trade Agreement](#) (2004)

[Chile: Chile–United States Free Trade Agreement](#) (2004)

[Singapore: Singapore–United States Free Trade Agreement](#) (2004)

[Bahrain: Bahrain–United States Free Trade Agreement](#) (2006)

[Morocco: Morocco–United States Free Trade Agreement](#) (2006)

[Oman: Oman–United States Free Trade Agreement](#) (2006)

[Peru: Peru–United States Trade Promotion Agreement](#) (2007)

[Dominican Republic–Central America Free Trade Agreement](#) (DR-CAFTA; incl. Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic; 2005)

[Panama: Panama–United States Trade Promotion Agreement](#) (2011)

[Colombia: United States–Colombia Free Trade Agreement](#) (2011)

[South Korea: United States–Republic of Korea Free Trade Agreement](#) (2011)

Currently, the United States is negotiating the Trans Pacific Partnership (TPP), a Free Trade agreement of 12 Pacific Rim countries. China, the world's most populous country is not one of them.

Also being negotiated is the Transatlantic Trade And Investment Partnership (TTIP) is a proposed Free Trade agreement between the European Union and the United States.

According to Wikipedia, The United States and the European Union together represent 60% of global production and 33% of world trade in goods and 42% of world trade in services. A free trade area between the two would represent potentially the largest regional free-trade agreement in history.

2. THE EVOLVING WORLD ECONOMY

In many ways the world is moving toward a closer network of relationships between countries, especially since World War II. Among the ways this is manifesting itself are the following:

The United Nations is the international organization in which most countries of the world are represented and which deliberates on affairs and policies that are of international importance. Among the numerous agencies of the UN are the FAO (Food and Agricultural Organization), the ILO (International Labor Organization), UNESCO (UN Educational, Scientific and Cultural Organization), WHO (World Health Organization), UNCTAD (UN Conference on Trade and Development).

The North-South Dialogue takes place in and out of the UN. This involves the relationship between the industrialized countries (the North) and the less developed countries (the South), and ways in which the North can aid in the development of the South.

The Law of the Sea is at present more a goal than a reality. A series of conferences seeks to determine the terms of access to the use of the ocean and to its resources, including not only fishing but minerals and other resources in the seabed. A North-South split over this issue revolves around the South seeking to gain benefits from the North's more effective exploitation of the sea due to superior technology. This dispute unfortunately takes place on the basis of national interests rather than on the right of all people to the world's resources.

The World Bank and the International Monetary Fund are international financial institutions. The World Bank is an international lending institution for development and consists of a smaller number of the wealthier countries than the IMF, whose purpose is that of balancing the monetary systems and aiding the balance of payments of the poorer nations. One result has been an over extension. Money has been poured into countries that are in economic trouble and have currency problems, and they have little chance of repaying these loans. This in turn has led to more austere policies in such "debtor nations", leading to further problems.

The Trilateral Commission, a non-governmental organization, formed in 1973, consists of *industrial*, financial and political leaders representing North America, Western Europe and Japan, the three most advanced areas of the world. They meet periodically to discuss world economic problems, such as development, finance and trade, and to foster closer cooperation among the three regions. Criticized for secrecy in their early days, they have since become more public.

OPEC (Organization of Petroleum Exporting Countries) leaped into prominence, in 1973 when the oil-rich countries, especially in the Arab world, jointly decided to boost the price of oil, leading to economic problems on the part of oil-importing countries. Their power has since been curtailed by increased exploration and production of oil outside of OPEC, a subsequent drop in oil prices, and disagreement among OPEC members. It should be noted that OPEC's clout came from the mere presence of an important natural resource within their territories rather than from production, which was undertaken by outside firms.

Transnational Corporations (also known as multinational corporations) are firms that operate in other countries besides their own. They are estimated to deal with one-third of world production and trade.

Henry George Academy

Quiz on lesson III in Applied Economics

1. Is trade a part of production? _____ Are merchants producers? _____
2. What was the original purpose of tariffs, Revenue ____ Or Protection ____
3. Tariffs are paid by the merchant or company who receives the goods when they enter the country. Is the tariff listed with the price of a product when the consumer goes to make the purchase? ____ Can the consumer resist paying the tariff and still purchase the import? ____
4. One alternative to protecting domestic industries with tariffs, is the bounty system. It is paid to domestic producers in addition to the money received from the sale of the product. Aside from increasing the general level of taxes, would the bounty system discourage or handicap other industries that were dependent upon the use of protected products? _____
5. How should we determine what industries are most important to our country, by a referendum or vote of our representatives, ____ by the ability of each industry to sustain itself in the free market? ____
6. If a nation stopped imports entirely, would that nation benefit by continuing to export valuable products to other nations? _____
7. Would it be possible to restrict imports without diminishing exports? _____
8. In the normal course of trade, people export things from places where they are cheap to places where they are dear, therefore, the value of imports tend to exceed the value of exports. Name the two primary ways that the value of exports exceed the value of imports. 1. _____
_____ 2. _____
9. If we stopped imports entirely, which of the following exports would continue to leave the country? Wealth which represented property passing by gift or inheritance __; Products which represented Interest on stocks and bonds owned by foreigners __; Products bought by foreigners with their own money; __ Products bought with the Profits from foreign owned real estate ____.
10. Which of the following foreign investments could be good for both the investors and for the people of the country they invested in: government bonds used to build highways __; factories used to make consumer products __; land, which includes all natural resources ____.

Lesson IV Trade and Tariffs

Protection of Free Trade, Chapters XIII - XVIII

Page numbers are in parenthesis.

The Function of Money

1. The idea that a nation loses from importing products and gains from exporting them. If we thought of nations as though they were individuals, then the products they sold to other countries would be their exports, while the products they bought from other countries would be their imports. The more they sold, and the less they had to buy, the greater their profits. (123-124)
 2. The function of money: It won't satisfy your desires directly — you can't eat it, wear it, or live in it — but you can trade things for it. It is a medium of exchange, a store and a measure of value. (125-127)
 3. As civilization advances, the use of gold and silver is superseded by instruments of credit in international trade: bills of exchange, letters of credit, notes, drafts and credit transfers etc. (125)
 4. Gold and silver as the only real wealth: In times when life and property were less secure, it was important to have something readily concealed, conveniently carried, speedily exchanged, and universally accepted. Gold and silver fit those requirements and was considered by many to be the only real wealth? (127)
 5. The idea that Gold and silver are the only real wealth helps to support the protective theory. If we thought of nations as merchants competing with one another for the gold of the world, it would clearly support the protective theory (discourage imports, except gold). (128)
 6. Economic conditions that tend to affect a fluctuation in the price of gold: Over the centuries, gold more than most other products has remained scarce and maintained its value. When uncertain or unfavorable economic conditions arise, people have consistently turned to gold as a store of value. As more people try to buy gold its value goes up. As inflation is low, and interest rates are high, people are inclined to sell gold and buy stocks or bonds, and the price of gold goes down.
 7. Comparing the sales and purchases of a merchant with the imports and exports of a nation: The money received from a sale would be comparable to the imports of a nation. The products given (sold) by a merchant would be equal to the exports of a nation. Keep in mind that the money received by the merchant is a claim on other products or things, not the final object sought in rendering the product which is sold. (131-132)
- "Being accustomed to measure the profits of business men by the excess of their sales over their purchases, the assumption that the exports of a nation are equivalent to the sales of a merchant, and its imports to his purchases leads easily to the conclusion that the greater the amount of exports and the less the amount of imports, the more profit a nation gets by its trade". H.G.

Protection and Profits

8. The belief that induces working people to support protection is that the products of low-paid labor in other countries can undersell the products of high-paid labor in the U.S., when competition is permitted. It is this belief which leads working people in the U.S. to support protection. (135)
9. Tariffs have not only been advocated on imports from low-wage countries like Mexico and Indonesia, they have also been advocated for high wage countries like Japan and Germany when they were able to sell products cheaper than American companies. (136)

10. Low paid labor does not necessarily mean a low cost of production. In the late 1990s Mexico produced about \$4, 000 per person each year, while the U.S. produced over 25,000 per person. That's more than enough to account for the higher U.S. wages. However, It could easily be said that because of the higher U.S. investment in capital, that the greater productivity is taken by the owners of capital. In that case, higher wages would equal a higher cost of production. (138)

Still without any actual numbers, we can analyze the question from another vantage point. We know that if we take the total value of things produced, and subtract all the wages paid to labor, all the interest paid to capital, all the wealth paid in monopoly profits (franchises, patents, licenses, copy rights, etc), and all taxes at all levels of government, we shall deduce the cost of production. The difference between the cost of production and the total value of wealth produced, equals the aggregate rent of land. Wherever the cost of production is low, the rental value of land is high and visa versa.

11. Countries with the cheapest cost of production: While any statistics would show selling prices, not rental values, most people would agree, on average, the rental value of land is higher in the United States than in Mexico. Therefore, the United States must have a lower cost of production. Low wage countries do not necessarily have a low cost of production. This may be due to many factors, including the public infrastructure and private investment in labor saving capital.

If the United States has a lower cost of production than Mexico or Indonesia, why are so many American companies investing in Mexico and other countries, including China? While the cost of production in the U.S. may still be lower, their ratio of future profits to the price of land may look like a better long term investment. Their infrastructure is evolving with new highways and communications systems, freer markets and freer trade. The per capita productivity of Mexico has nearly doubled in the last few years. China has increased productivity far more.

12. Suppose one country produced all things better than other countries. It would still be mutually profitable for that country and its neighbors to trade with one another. (145-147) (supplement) By way of analogy, suppose a 1st class carpenter could perform every single job faster than a 2nd class carpenter; he could build the stair case and figure the pitch of the roof nearly 10 times as fast; he could frame the windows and hang the doors over 5 times as fast; he could saw the boards and hammer the nails, even sweep the floor slightly faster. By having the 1st class carpenter do the most difficult jobs (those where the differences were the greatest), and the 2nd class carpenter doing the easiest jobs (those where the differences were the smallest), they could build two houses far more quickly than they could with each of them working independently.

The same thing would apply to a nation. High tech products are sent to the less productive country and low tech products are sent to the more productive country. This means that one country can produce all high tech products for export, and get more low tech than it could have produced itself, while the less productive country, by producing low tech products for export, can get far more high tech products than it could have produced itself. Example: Suppose Blue Jeans were exported to the U.S. from Mexico. In exchange, computer programs were exported to Mexico from the United States. It is conceptually possible that the Americans could get more Blue Jeans than they could have produced themselves with the same amount of labor and capital — while the Mexicans could get more computer programs than they could have produced themselves with the same amount of labor and capital. This is called the Law Of Comparative Advantage.

13. A country that allowed its citizens the freedom to trade with people of other countries would still enjoy the benefits even if all other countries restricted their citizens from doing the same. (149-150)

Via analogy, suppose that a religious sect permitted each family to keep everything it produces for itself, but required that of everything received in exchange, they must donate 10% to the church. This would diminish their incentive to trade, and would, to a lesser extent, diminish the incentive of others to trade with them. However, would it benefit others to retaliate by giving 10% of everything they receive in exchange to their church? This is the illogic of retaliatory tariffs.

14. "Let me call attention to a confusion of thought which gives plausibility to the notion that manufactures should be "encouraged". Manufactures grow up as population increases and capital accumulates, and, in the natural order of industry, are best developed in countries of dense population and wealth. Here in substance, is the argument which has been addressed to the people of the United States from the time when we became a nation to the present day [1886]: *Manufacturing countries are always rich countries. Countries that produce only raw materials are always poor. Therefore, if we would be rich we must have manufactures, and in order to get manufactures we must encourage them.*"

An increase in industrial development does not draw a greater population and increase productivity; an increase in population, permits greater subdivisions of labor and economies of scale, it increases the potential to produce, and manifests itself in industrial development? (153-160)

15. The effect of legislative encouragement or restriction of any one industry on the total production of wealth: By increasing the rewards for producing selected products, it diverts labor and capital from producing things that would otherwise be produced more efficiently and yield a higher return. That reduces the total production of a nation.

16. The real cost of protective duties to the people at large: 1. The tax upon imported goods, plus the profits upon the tax, plus the attendant corruption. And, 2. the higher price paid for products of the protected home industry. (167)

17. Protection does not often succeed in increasing the profits of those industries which it is designed to encourage. The tariff increases the price of a product, and everything that the product is a part of, like steel and cars. When many different products are protected, the increased prices reduce the demand for the protected products. It is possible that beyond a certain point the tariff might, by reducing demand, offer no greater profits to the industries it is designed to encourage. (166-169)

18. Any business open to domestic competition cannot gain a permanent advantage from protective tariffs. Suppose a large tariff was placed on foreign cars. Suppose that prior to the tariff the average return for industrial investment was 10%. However, because foreign cars now cost more, the demand for domestic cars increases, and the increased demand increases their price — therefore, their profits as well. If the higher returns on investments in domestically produced cars then averaged 15%, would any other big corporation pass up a chance to get a 15% return? They could take their profits and buy stock in G.M. and Ford, buy Chrysler outright, or start a new company and make their own cars. Either way, as the supply of cars to be sold increased, the price of cars would fall. Investors will continue investing in the production of cars, until the returns (profits) from making cars were no greater than any other investment opportunities. Of course patents and organizational know-how will help established companies, but no business open to domestic competition can gain a permanent advantage from protective tariffs. Although the profits of producers will be no higher in protected industries, if domestic producers are less efficient, it will be reflected in higher consumer prices. If they are not less efficient, there would be no reason to ask for tariffs in the first place. (170-172) (180)

19 Industries in which protective tariffs do result in greater profits. Suppose instead of cars, a large tariff was placed on steel. The demand for iron ore needed to make domestic steel would go up, but since land that contains iron ore cannot be produced, the increased income resulting from higher priced steel would go to the owners of the land that contains iron ore. (171)

20. The most fundamental monopoly is land.

21. The larger profits resulting from protection in monopolistic industries do not go to the producers. All benefits from tariffs and quotas go to land owners and other monopolists like those that have patents on machinery.

22. Protection has retarded production. The higher price of imported goods reduces the demand for imports and therefore the demand for exports. Therefore, it reduces the total production of a country.

Let's say that prior to any tariffs or quotas, the U.S. imported steel from Germany in exchange for wheat, which the U.S. produces more efficiently. Next, let's say that a tariff or a quota is placed on German steel. The higher price encourages American steel companies to produce more steel, and the price of land that contains iron ore increases in value. Because the U.S. is no longer producing wheat to export in exchange for steel, the value of land that grows wheat decreases in value. So to a large extent, what the owners of land that contains iron ore gain, the owners of land that grows wheat will lose. However, because the United States grows wheat more efficiently than it makes steel, the aggregate production of the country is diminished. (The G.D.P. falls)

But because (free market) wages and interest, in the absence of a free land alternative, have already fallen to an amount below which productivity would fall, any reduction in total production tends to manifest itself in lower land rents. This is the same principle which allocates all increases in productivity, to higher land rent. When the price at which land is sold does not fall in sync with the fall in productivity or available financing, labor and capital can not get access to land. New jobs cannot be created. When the economy does not expand for six months, it is declared a Recession. Those who have reached working age cannot be employed, and those who were replaced by automation cannot be re-employed.

The reduction in productivity due to Protection may be offset by new inventions, new discoveries, or additions to the infrastructure.

Supplement to lesson IV

The Island and the Continent

Henry George says (*Protection or Free Trade*, pp. 145 - 46): "Let us suppose two countries, one of which has advantages superior to the other for all the productions of which both are capable....The people of the country of greater advantages would import from the country of less advantages those products as to which the difference of advantage between the two countries was least, and would export in return those products as to which the difference was greatest. By this exchange both peoples would gain."

The following charts and explanation illustrate this point. They are taken from *The Philosophy of Freedom* by Gaston Haxo. (reproduced by permission of the author.)

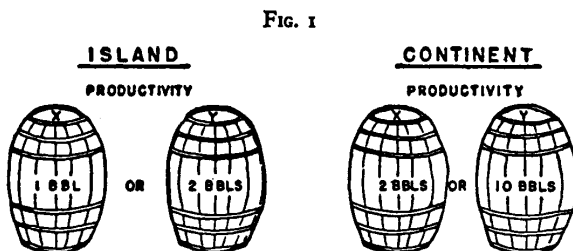


Fig. 1. On the island a man will produce in a given time one barrel of X or two barrels of Y, while on the continent the same amount of labor in the same time two barrels of X or ten barrels of Y. Therefore, both products are cheaper on the continent than on the island.

At first thought it might appear that the continentals cannot possibly profit by any importation from the island and that if there is to be any trading it must be all one way. But unfortunately for this idea there is no such thing

as "one-way" trading. According to the protectionist theory, the islanders will need a protective tariff, for unless they have one the island will be flooded with the cheap goods of the continent; their home industries will be condemned to idleness, and their laborers will be out of work. Such notions, however, spring from a misconception of the true nature of "trading," which is an exchange of products. There can be no consumption without production; neither can there be buying without selling, and nations cannot export if they do not import, and vice versa.

Exchange is not determined by the absolute cost of production but by the relative cost. It will be noticed that the labor cost of X in the two countries is the ratio of two on the island to one on the continent, while the labor cost of Y is ten to two or five to one. Hence it will pay for the islanders to supply X to the continentals in exchange for Y, and such trading will benefit them both.

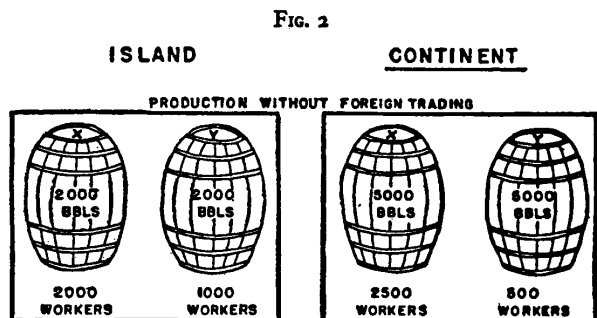


Fig. 2 represents the production of X and Y in the two countries with 3000 workers employed. No foreign trading is contemplated. Productivity of labor as per Fig. 1.

Henry George Academy

Quiz on lesson IV in Applied Economics

1. Is paper money or money in a checking account wealth? ___ ; or a medium of exchange? ___.
2. When money is used to facilitate trade, is the trade complete before the money is spent? ___
3. The less money a merchant pays for his products, and the more money he gets when he sells them, the greater his profit. In comparing a nation to a merchant, is the money he gets from the sale of his products, equal to a nation's Imports? ____; or Exports? ____.
4. Working people, and the Labor Unions that represent some of them, assert that high wage Americans cannot compete with the lower paid workers of other countries. In order to preserve high paid American jobs, we must raise the price of imports with tariffs or quotas and keep American products competitive. Do low wage workers necessarily produce things cheaper? ___
5. Suppose one country could produce everything cheaper than another country, could both countries still benefit from trade? ___
6. Would a country that allowed its citizens the freedom to trade with people of other countries enjoy any benefits if all other countries restricted their citizens from doing the same? ___
7. In the natural order of things, do profitable industries exist because people invest in factories, and the factories in turn attract people to work in them? ___ Or, do densely populated areas present an opportunity for industrial investment, because dense populations are more efficient in industrial production? ___
8. If a tariff is levied on steel, what happens to the price of automobiles and other products that are made of steel? _____
9. In the long run, can the returns (profits) to labor and capital be higher in one industry than any other which is open to domestic competition? ___
10. Tariffs make domestic products more profitable. Who ultimately gets the greater profits from protected products, the labor and capital that produced them? ___; or the owners of patents and land on which the producers worked and out of which the products were made? ___

Lesson V - Protection and Wages

Protection or Free Trade, Chapters XIX - XXIV

Page numbers are in parenthesis.

Protection and Wages

1. "Discussions of the tariff question seldom go further than the point we have reached. The protectionists claim, in regard to the effect of protection on wages, that restricting imports prevents wages from falling to the lower level of other countries. . . , but this is based on the assumption that protection is necessary to enable production to be carried on at the higher level of wages, and that if it were withdrawn, production would so decline, by reason of the underselling of home producers by foreign producers, that wages must also decline." H.G. (195)

2a. The effect of protection (import taxes or quotas) on prices is to raise them. In terms of what you can buy, the effect of the resulting prices is to lower wages? (197-199)

3. Wages are not determined by competition in the goods market; wages are determined by competition in the labor market? (199-200)

4. The aim of protection is to lessen competition in the goods market, not the labor market. (204)

5. Protected industries do not necessarily share their higher profits with their workers. (207-209)

6. Wages in a specific industry can be raised briefly by tariffs. The demand for a Protected product could raise wages temporarily within that industry by a sudden increase in the demand for the skill needed to make the specific product. However, in time the higher wages would draw more and more people to that industry and wages would fall back to the common level. (209-210)

The higher wages of skilled workers depend on the difficulty of accumulating the knowledge, learning the skill, and the desirability of the job. As the supply of people who can and are willing to perform a job increases, their wages go down.

7. To raise the general level of wages, those of the lowest paid workers must be raised. The higher pay of superior workers is based on competition among employers. The higher pay encourages others to learn the skills and accumulate the knowledge, which increases the supply of superior workers and tends to lower their wages. It would not help to raise the wages of the heads of corporations. (211-213)

8. A tariff on agricultural products cannot raise wages. Although the United States is generally an exporter of agricultural products, suppose it imported most of its food. A tariff, which raised the price of food, would not raise wages, because wages, in the absence of free land, tend to an amount below which productivity would fall — no matter what the value of the products of labor. (213)

9. Wages in protected industries compared with wages in unprotected industries: Excluding those industries which have gained in wages through labor union activity, wages in protected industries are no higher than in unprotected industries? In 2015 there are few seriously protected industries, but clothing and shoes are still taxed very heavily. Workers in those industries are not paid any more than those in other industries requiring equal amounts of education and training. (215-216) All wages tend to a common level — an amount below which productivity would fall. Individual wages depend upon the desirability and the difficulty in learning how to do the job.

The Abolition of protection

10. It would not be unjust to abolish protection all at once. "If protection be unjust, if it be an infringement of equal rights that gives certain citizens the power to exploit other citizens, then anything short of its complete and immediate abolition involves a continuance of injustice. No one can acquire a vested right in a wrong; no one can claim property in a privilege." H.G. (217)

11. So far, what has been shown regarding (a.) the tendency of free trade is to increase the production of wealth, which would permit an increase in wages. (b.) The tendency of protection is to decrease production and foster monopolies. (226)

Free Trade and Wages — The Inadequacy of the Free Trade Argument

12. The increase in wealth does not necessarily mean an increase in wages. (227)

" In the United States where political power is in the hands of the masses, the vital point in the tariff controversy is as to its effect upon the earnings of "the poor people who have to work". H.G.

But this point lies beyond the limit to which free traders are accustomed to confine their reasoning. They *prove* that the tendency of protection is to reduce the production of wealth and to increase the price of commodities, and from this they *assume* that the effect of the abolition of protection would be to increase the earnings of labor. But not merely is such an assumption logically invalid until it is shown that there is nothing in existing conditions to prevent the working-class from getting the benefit of this tendency; but although in itself a natural assumption, it is in the minds of "the poor people who have to work" contradicted by obvious facts. In this is the invalidity of the free trade argument, and here, and not in the ignorance of the masses, is the reason why all attempts to convert working-men to the free-tradeism which would substitute a revenue tariff for a protective tariff must, save under such conditions as existed in England in the 1840s, utterly fail. [H.G.] (labor unions are still against free trade.)

13. The free trade theory is completely inadequate, because it doesn't explain how free trade will preserve jobs and increase wages. (228)

14. Free trade would not increase wages permanently. Although free trade could so increase productivity, that wages would initially tend to rise; in the long run, as long as there is no free land, wages would fall back to their former level,. (230)

15. The fundamental problem, which free trade alone cannot solve, and which accounts for the general acceptance of protection is that in spite of the enormous increase of productive power, it is yet so difficult for the least demanded laborers to get a living, no matter how much they produce. (233-235)

16. There are two basic reasons why the inequality in the distribution of wealth tends to lessen the total production of wealth. 1. Lower wages tend to reduce the level of education, and the incentive to produce. 2. People who receive unearned incomes have much less incentives to work and produce. (241)

17. In spite of its fallacies, there is one fact from which Protection draws its greatest strength. In a fully developed society there are, at all times, people who are unable to find work. The majority of workers are more concerned with the number of jobs, than efficiency. (243-244)

18. Protection appears to make work. When a country produces its own food, clothes, cars, appliances, tools, and toys, it may be less efficient, but it seems to create a greater demand for labor, and make more jobs. (244)

19. Work is not a desirable thing in itself. Although we only want the results of work, the only way most people know to get them, is to get a job and to work. (326-247)

20. The seller of commodities has an advantage over the seller of labor. If a person doesn't sell a commodity today it can be sold tomorrow. Can the person who doesn't sell his labor today, sell it tomorrow? (248)

21. Where the worker cannot be self-employed, his or her attitude toward the employer is generally one of beneficence.

22. The effect of labor-saving inventions on the condition of labor: Just as free trade would increase the general level of productivity, so have labor-saving inventions already increased productivity. But, whatever improvement there has been in the general well-being of workers, it has come by other means — Min. Wage, eight hour day, Labor Unions, etc. (253-257)

23. Automation and computerization have affected the job market. With automation and computerization there has been a demand for skilled labor, but a decline in middle-wage jobs. There has been an increase in low-paying jobs. Even computer skills are becoming so widespread that they are rapidly becoming "average" and so are not likely for long to command a special bargaining position in getting a job or commanding higher wages.

With every new subdivision of labor, each worker is required to know even less.

SUPPLEMENT LESSON V

1. U.S. TRADE POLICY

Tariffs have been part of United States policy since the founding of the Republic in 1789. The protection-versus-free-trade issue also dates from the beginning of the nation. Alexander Hamilton advocated protectionism and Thomas Jefferson advocated free trade. Protectionist policy was supposed to be beneficial to manufacturing industries, in the belief that keeping out foreign competition would help build up American “infant industries.” (Henry George deals with this question in Chapter X of *Protection or Free Trade*.) Free trade policy was generally advocated for the benefit of U.S. agriculture which would presumably be helped by the import of cheaper manufactured goods from abroad.

This controversy became sectional and persisted through the Civil War, when the agricultural South was free-trade, and the industrial North was Protectionist. But in the nation as a whole, both before and after the Civil War, tariffs kept rising steadily (with the exception of reductions in Cleveland’s and Wilson’s administrations) until it reached its highest point with the Hawley-Smoot tariff of 1930. With imports sharply curtailed, the rest of the world stopped buying most of the things it had from the U.S. and international trade collapsed.

To ameliorate the situation, the Reciprocal Trade Agreement Act was passed by Congress in 1934, and since then the U.S. has negotiated agreements with other countries whereby there is a mutual lowering of tariffs.

In 1947, the General Agreement on Tariffs and Trade (GATT) was started, with 23 nations including the United States. Instead of bilateral agreements, GAIT introduced multilateral agreements whereby a number of nations negotiate with one another simultaneously.

The Trade Expansion Act of 1962 and the Trade Act of 1974 showed increasing attention to expanding trade with the rest of the world; however, they promised aid to industries and laborers “hurt” by increased trade. Not only economic, but political considerations were introduced, such as dealing with the Communist world.

In 1979, two acts were passed which affected international trade: the Export Administration Act, and an Amendment to the ‘Tariff Act of 1930 relevant to imports. Both laws increased political involvement with respect to both imports and exports. The importance of tariffs as public revenue has declined. They once accounted for nearly 50% of federal revenue, but have since dwindled to about 1%. The main motivation today is not revenue but economic and political policies. These are implemented not only by tariffs but by exchange controls, quotas, etc.

In 1985, the U.S. entered into an agreement with Israel for the progressive mutual reduction of tariffs to zero within ten years. The amount of trade is not great by world standards, and the motivation is political more than economic. However, it may serve as a guide to further unilateral negotiations, since multilateral negotiations have not worked very well.

Traditional economic worries still underlie trade policies. Despite strong support of freer international trade, “the spirit is willing but the flesh is weak.” There is still the basic fear of “flooding the market with cheap goods,” unemployment, closed industries, etc. Whereas in the 19th century it was mostly industrialists who pressed for high tariffs, today organized labor joins the chorus. Until this basic economic fear can be eradicated, there is not likely to be a genuine move toward full free trade.

2. THE U.S. AND JAPAN

In the 1980s Japan had developed into the leading rival of the U.S. in industry and high technology, outstripping Europe and even leaving West Germany behind.

After World War II, Japan had to make a completely new start, with its industrial base demolished. This was spurred by American-induced reforms, notably land reform and the break-up of the Japanese feudal system. The contrast between rich and poor was substantially reduced. Furthermore, the Americans dismantled the Japanese military. Supposedly a disciplinary measure, it relieved the Japanese economy of a great burden for many years.

Required to make a new start, and uninhibited by an entrenched establishment, Japanese industry sought to undertake the best performance possible. An industrial system has evolved that performs well and keeps seeking improvement. Research and development are important in Japanese industry, which is, compared to its American competition, more committed to long-term success than to quick profits. In its export markets it studies needs and demands, adapts itself and pursues aggressive selling.

There is a close relation between government, business and labor. Although government in Japan is smaller than in most advanced countries, it plays an active role with an "industrial policy" seeking to encourage development of the most promising ventures.

Although the wage scale in Japan is not as high as in the U.S., it is still high by world standards and substantial fringe benefits are offered. The Japanese worker has a close relation with his or her firm that has been compared to a family relationship. There is job security, worker responsibility for quality control and job satisfaction. American workers with Japanese firms admit that they prefer this to a higher wage scale with insecurity, union restrictions, job monotony and being a "cog in a machine."

While more than half of Japanese products are sold domestically, a substantial portion is sold to Americans who find Japanese automobiles, television sets, etc., desirable goods.

Much of American industry and labor have responded by demanding higher tariffs and restrictions on Japanese imports. But some American industries have shown interest in studying Japanese methods and emulating them. These industries are not only able to hold their own in the U.S., but have even penetrated the Japanese market.

Those sectors of U.S. industry that are declining have failed to observe productive and market efficiency. Steeped in old methods, they persisted in their ways, failing to keep up with technological innovations and ignoring many danger signals. They were also indifferent about studying world markets and adapting to them. One typical case was the automobile industry which suffered serious decline, but eventually woke up and began paying attention to matters that the Japanese have been cultivating, with a resultant revival. The steel industry is another case.

The Japanese have forged ahead by improving on technology initiated elsewhere, especially the U.S. In the U.S. there has been a long tradition of invention and innovation. But the lethargy of monster business, the drag of monopoly, and burdensome taxes have been drawbacks. The U.S. is still ahead in computers and other high technology, but the weight of privilege and inefficiency could pose a danger here, too.

Tariffs and trade restrictions are forms of privilege that could set back further U.S. development. A free market and the abolition of privilege could restore the remarkable productivity for which the U. S. has been famous.

Quiz on lesson V Protection and Wages

1. Suppose that a low wage country could produce everything cheaper than the United States. Would they give us their products? ___ Or, would they trade with us for American products? ___ As long as they trade, could there be any less demand for American labor? ___
2. Tariffs are supposed to keep wages high. However, what do they do to prices? _____
3. In terms of what a worker can buy, what do higher prices do to wages? _____
4. Would tariffs on imported agricultural products like sugar, raise the wages of agricultural workers? ___ Or, would it raise the rent received by the owners of land that grows sugar? ___
5. The tendency of Protection is to decrease the production of wealth. The tendency of free trade is to increase the production of wealth. Does an increase in productivity necessarily mean an increase in wages? ___
6. Do its advocates explain how free trade will raise wages? ___ Or, are you to assume that because free trade will increase productivity, it will raise wages? ___
7. To raise the general level of wages, do we raise those of the highest ___ or lowest ___ paid workers?
8. In the absence of any free land, what determines the wages of the lowest paid workers — The value they produce ___ or subsistence, (food, clothes, shelter etc.) Min. Wage, labor unions, etc. ___
9. Workers with superior skill and knowledge are paid the full value that they produce. ___ Or, they are paid what ever it takes above the lowest paid workers to create the incentive to accumulate the knowledge and skill or hard work ___, needed to fill the demand for superior workers and increased production.
10. The fundamental problem in our society, even in the best of times, is that wages of the least productive workers tend to a bare minimum, below which productivity would fall, and even in the best of times many people are unemployable. Are the majority of workers most concerned with the general level of productivity? ___, or the demand for labor? ___.

Lesson VI - True Free Trade

Protection or Free Trade, Chapters XXV - XXX

Page numbers are in parenthesis.

True Free Trade

1. "The robber that takes all that is left": Protection, as we have seen, diminishes the results of labor and capital, and enhances the profits of certain non-producers. In that sense Henry George compares it to a robber. However, he says, no matter how much is taken by Protection, or any other robber, there is one robber who takes all that is left — "And that robber is private property in land". (267)
2. There are other ways in which wealth is diverted from producers to non-producers. Besides restrictions on trade, there are unjust taxes, government waste and corruption, monetary inflation, and other monopolies granted to the private sector. (266)
3. The net effect of abolishing all other monopolies except that of the private ownership of land would be to stimulate production; the economy would expand, and the demand for land (on which and from which production takes place) would increase. Since land cannot be produced, the increased demand for land would continue until its value was equal to all the wealth previously diverted to other non-producers. (268-269)
4. The value of land arises as its owners are able to take part of the produce of others for permission to live and work upon it. There are natural advantages and those which increase with the advent of population. A community, as a whole, can produce far more than its individual members, were they to live and work independently. Exclusive use of land is necessitated by the rights of property in things produced upon it — crops, buildings, factories. However, exclusive control of land that is superior to the land that is free to others is the fundamental inequity. Where land has a speculative value it is because of the expectation that the growth of society in the future will make its ownership equivalent to the ownership of labor (The rental value of land equals the advantage). (272-273)
5. As inventions increase the power to produce wealth, (a.) the value of commodities tend to fall. Inventions and discoveries that increase the productive power of labor, lessen the value of the things that require labor for their production. (The price of computers keeps coming down as technologies reduce the amount of labor needed to produce them.) (b.) The value of land increases. When there is no free land, all the benefits of lower prices are counteracted by higher land rents. The less it costs to live, the less workers are paid, and the more is left to be taken by the owners of land. "Where land is fully appropriated as private property no increase in the production of wealth, no economy in its consumption, can give the mere laborer (least demanded, least educated or skilled) more than the wages of the slave." H.G. (273-274)
6. When labor has free access to land, the private ownership of capital can not compel labor to work for minimal wages. Wherever land has been free, capital has had no power to exploit labor. When workers own the land on which they live and work, the lenders of capital, which is the product of labor, (buildings, machinery, inventories) have not been able to diminish their wages. (275-276)
7. To make free trade beneficial to labor, a basic reform must be adopted. There must be a correlation between the general increase in productivity and the general rate of wages. In a free market, only when land without value will yield more than a bare minimum, can a general increase in productivity also increase wages. Land reform is necessary to bring about an equitable distribution of wealth. (280)
8. Common property in land (the natural opportunity) does not conflict with people's exclusive right to the product of their labor. Private property in land enables landowners to take from the producer. (280)

9. Equal rights can be secured for the use of land. By requiring each land holder to pay to the community the rental value of the land they hold, we may safely leave them undisturbed possession of the land which their deed assigns and yet satisfy all other peoples equal rights to the same land (the same natural opportunity). (280-282)

10. There is existing machinery that can be employ to collect the rent of land for society. The existing system of real estate taxation could be altered to collect the rental value of land instead of a portion of the selling value of land and buildings. (382-283)

11. In addition to collecting the rent of land, all other taxes now levied on labor and capital could be abolished. (283-284) George also advocated the socialization of all businesses that are in their nature monopolies: roads, railroads (not necessarily the train companies), highways, water lines, electric and phone wires, and the abolition of all other monopolies. Some government granted monopolies could be replaced by bounties or grants to universities for invention and scientific discovery. History has shown that patents have not only stimulated invention, they have in many cases retarded it.

12. The major benefits to be derived from the public collection of the potential rent (the rental value of land): 1. Increased productivity. Non-use and under-use of the most potentially productive land in the private sector would cease. As labor and capital moved to the more productive land, the total results of labor and capital (G.D.P.) would increase. And, without idle lands, a greater cooperation would result in greater productivity.

2. Full Employment. Since land could no longer be withheld, as long as nature provided enough land capable of yielding more than subsistence, all, who were willing and able to work, would be employed.

3. Increased wages and Interest. Although the best quality of land would have high values, a significant amount of land would have no value at all. As the productive potential of the free land would increase above subsistence, it would raise the rate of wages and interest everywhere. That is because no one will work for someone else unless they are offered more than they could have produced working for themselves.

4. No Taxes would be levied on Wages or Interest. Revenues would come from a charge for benefits received. Government would be limited to the socially created values as distinguished from those produced by individuals and private companies. These benefits would be measured by the rental value of land.

5. A Natural Source of Revenue would be collected in Harmony with the increasing needs of social growth.

13. There is an extreme difference between a tax on land area and a tax on land values. With a tax on land area (so much per acre), a farmer might pay many times what a Center City store owner would pay, even though his land and the benefits he would experience per acre are worth a small fraction of the value of the city land. Were there actually free land of good quality, a land tax on area would be at the expense of wages and interest as the tax would have to be paid whether the land had any value or not.

14. True free trade in the view of Henry George, means no impositions (taxes) on production at all (trade being part of production), and equal access to the natural opportunities. ". . . free trade cannot logically stop with the abolition of customhouses. It applies as well to domestic as to foreign trade, and in its true sense requires the abolition of all internal taxes that fall on buying, selling, transporting or exchanging, on the making of any transaction or the carrying on of any business, save of course where the motive of the tax is public safety, health or morals. . . . We should . . . give full play to the natural stimulus to production. . . . leaving every one free to make, exchange, give, spend or bequeath."

Henry George Believed that: "true free trade means free production. Fully to free production it is necessary not only to remove all taxes from production, but also to remove all other restrictions on production. True Free Trade, in short, requires that the active factor of production, Labor, shall have [equal] access to the passive factor of production, Land. To secure this all monopoly of land must be broken up, and the equal right of all to the use of the natural elements must be secured by the treatment of the land as the common property in usufruct of the whole people. (usufruct: The right to use and enjoy the profits and advantages of something belonging to another as long as the property is not damaged or altered in anyway.) (286-290)

15. A tax on land values is not really a tax — in that it doesn't confiscate the product from the producer or impose a burden on production. The public collection of land-rent would have in common with other taxes only the fact that it was spent for public purpose. Unlike a confiscatory tax, the public collection of rent would simply be a payment in proportion to the value of the benefits received. (288)

16. Sufficiency of land-rent for public revenue. Skeptics doubt that the rental value of land could cover all the expenses of government. However, first, they do not understand that the current tax system collects what would otherwise add to land-rents. And second, they do not account for the fact that cities and urban areas where population is dense would develop to a far greater level of productivity if land speculation were prevented, which land value taxation would do.

It is obvious from the analysis, without land speculation, productivity will grossly increase. With a free land alternative, the rental value of land will fall as wages will increase. As productivity in cities and urban areas increases disproportionately more than it does on the free land, the rental value of land in those areas will increase. Whether the rental value of land in total will be more or less than it is now is not known. However, with full employment and substantially higher wages, a large and growing portion of government expenditures would be un-needed.

The rental value of land for public revenue, also known as the Single Tax, is a concept of limited government, in which society is represented by the government, and is entitled to the socially created values, while private individuals and groups of people are entitled to everything that can be attributed to their individual and group productions. That is to say: people are entitled to whatever they produce by utilizing the natural opportunities that are freely available to all.

If the potential rent of the country is less than total revenues are now, then wages and interest will have increased by far more than the reduction of rents. This is due to the increase in productivity. While governments would then have a diminished role, the higher rates of wages and interest would give a net increase to the general level of prosperity. With full employment and higher wages, the present government expenditures for police, courts, prisons and welfare would be grossly diminished. Conversely, if the rental value of land, in the total, is higher, the people could vote for increased medical research and national health care, safe energy research and a cash dividend. As equal members of society, all people would be equally entitled to a share of the socially produced rent.

Georgism and Socialism

17. The Henry George proposal is a primary reform. Making land a common opportunity by collecting its rental value is a primary reform because it removes the fundamental cause of poverty. This is essential to making all other reforms beneficial. (300)

18. The essential scheme of socialism: Also see Supplement)

That the state (government) should direct the production and distribution of all wealth --- and abolish all competition. Socialists maintain that competition is an evil by itself and should therefore be abolished. (304)

19. George agrees with the Socialists that as civilization advances, conditions arise that enlarge the domain of social action. He agrees with socialists in their desire to abolish war and the preparations for war, and to socialize businesses, which are in their nature monopolies. (203-204)

20. George disagrees with the socialists proposal to abolish competition and to make the state (government) the sole capitalist and employer. (304-308)

21. George's attitude toward competition: He argues that it is because of restricted opportunities that competition seems like an evil. George maintains that with free conditions, abundant opportunities, and a free market, competition directs each person and organization to produce that for which they are most capable. It is a natural regulator of industry. (307-308)

22. George's proposal of land-rent for revenue would improve government in two ways. First, by improving social conditions the people would have more time to concern themselves with public policy, and corruption would diminish. And two, they would need far less for the preservation of order, the administration of justice (courts & prisons), and welfare. The focus of government would be shifted away from trying to influence the economy. Its primary purpose and obligation would be to collect the socially produced rental value of land. This would insure that land was not hoarded, nor was anyone taking what others produced. Governments could then focus more of their resources on the environment, research and the infrastructure . (305-306)

23. Some practical ways to secure public recognition and adoption of George's proposal: In order to bring about in a practical way recognition and adoption of his proposal George contends that people's moral sense must be aroused. Justice rather than self interest should be the appeal. Opposition should not be feared, because interest cannot be aroused without it. Practical proposals should be put forth and public discussion of them promoted.

SUPPLEMENT LESSON VI

1. Socialism and Communism

“Socialism” is a much used and misused term. There are various degrees and interpretations of Socialism. The word was coined around 1830 to indicate any doctrine that tries to rationally organize economic and social life.

In its more particular and most frequently used sense, Socialism is a system of social or governmental ownership and control of the means of production. Marxism (the theories of Karl Marx) teaches the coming of Socialism through class struggle and revolution. In its most thoroughgoing form, this doctrine is known as Communism, and is identified with Soviet Russia’s international Communism and the Communist Party. (In a more general but less-used sense, Communism means the abolition of all private property and the holding of all goods in common.)

Whatever the degree of Socialist doctrine, from extreme Communism to milder state control, the basic underlying assumption is that the marketplace, under conditions of pure *laissez-faire* competition, is incapable of securing to society an equitable distribution of wealth.

Socialists assert that if the market is left alone to decide who is to get how much of the world’s goods, the result is a division of society into classes and the emergence of a struggle between the exploiting class and the enslaved working class. Competition, they say, becomes “cutthroat competition” and fosters trusts, cartels and monopolies. The Socialist contention is that instead of making earnings proportional to service rendered, the marketplace gives the highest rewards to the worst exploiters.

In their analysis of the economic problem, Socialists lump land and capital under the single heading of “capital,” and some Socialists even include money as capital. This confusion prevents them from seeing the possibility of a beneficial free market without the element of monopoly. They want to secure justice by abolishing private enterprise and the profit motive--and even eliminating money, if possible.

Although some early Socialists were anti-government, government planning and control of all industry has become synonymous with the Socialist platform. Apparently a strong central government with dictatorial powers and bureaucratic control is needed if economic decisions cannot be trusted to the free market. The result has generally been curtailed production of consumer goods, shortages, black markets, bribery and corruption on a large scale. Freedom of job-choice, freedom of speech and press are greatly curtailed because of the necessity of pursuing a single plan. All of these things must be enforced by a strong police power.

One of the biggest failures in Communist countries is farm production. Farmers are extremely reluctant to produce more than they need for themselves when they are not given rewards commensurate with the production. By contrast, the farm produce of countries where farmers are relatively free to produce and sell is much greater. The free-market economy has proven itself again and again to be superior to a planned socialistic economy in terms of higher production and greater freedom. It can be noted, however, that despite their failings, “socialistic” revolutionary governments have succeeded in easing the horrible poverty and disease for millions of people in developing countries.

The mistake of lumping land and capital together is what gives Communism both its strength and its weakness. Its strongest appeal is to the impoverished landless masses of the world who have been rackrented for ages by ruthless landlords. Its greatest weakness is in its inability to provide the incentive that is given by the free

market to let the producer enjoy the benefits of what he or she produces.

Communism has not won over countries that are industrially advanced, as Marx predicted, as part of his economic interpretation of history. Instead, it has taken over in industrially backward countries (Russia, China, Cuba, Vietnam), which had a serious land problem. The real answer to Socialism and Communism lies in the solution to the land question.

2. The Free Trade Ideal

Richard Cobden was a pioneer of free trade. With his colleagues, he brought about the abolition of the corn laws in England (restricting the importation of grain) in the 19th century, ushering in an era of relatively free trade and prosperity. Refuting the charge that he was concerned only with material interests, Cobden made the following stirring statement on free trade:

“I have never taken a limited view of the object or scope of this great principle. I have never advocated this question very much as a trader.

“But I have been accused of looking too much to material interests. Nevertheless I can say that I have taken as large and great a view of the effects of this mighty principle as ever did any man who dreamt over it in his own study. I believe that the physical gain will be the smallest gain to humanity from the success of this principle. I look farther; I see in the Free Trade principle that which shall act on the moral world as the principle of gravitation in the universe .drawing men together, thrusting aside the antagonism of race, and creed, and language, and uniting us in the bonds of eternal peace.

“I have looked even farther. I have speculated, and probably dreamt, in the dim future ay, a thousand years hence .I have speculated on what the effect of the triumph of this principle may be. I believe that the effect will be to change the face of the world, so as to introduce a system of government entirely distinct from that which now prevails. I believe that the desire and the motive for large and mighty empires; for gigantic armies and great navies .for those materials which were used for the destruction of life and the desolation of the rewards of labor .will die away; I believe that such things will cease to be necessary, or to be used, when man becomes one family, and freely exchanges the fruits of his labor with his brother man...

Henry George shared this vision and felt that true free trade would eventually lead to a world federation. Cobden thought that universal free trade would lead to an extension of the municipal type of government, and this is consistent with the ideal of federalism.

George’s *Protection or Free Trade* has often been cited as being the best argument expounded against protectionism. But it is more than that. George saw that free trade had to be accompanied by something more fundamental: land reform. Cobden too saw the connection. Late in life he said to a group of young reformers: “You who liberate the land shall do more for the country than we who liberated its trade.” English laborers also sensed the connection and advocated free trade but also reform of landlordism. Unfortunately, since free trade by itself did not bring about expected improvements in the condition of labor, England abandoned the policy.

George thought that free trade, once achieved, would reveal the necessity for basic land reform and supported Grover Cleveland for President. But Cleveland supporters were not eager to be known as free traders and changed the slogan, “Don’t, don’t, don’t be afraid .tariff reform is not free trade.”

Free international trade would do much to ease tensions and hostilities in the world today--but beneath these symptoms lie deeper economic problems that must be solved.

True free trade, based upon equal opportunities and equal freedom for all, is a tremendous ideal that in George’s vision would lead to a truly peaceful, prosperous world.

Henry George Academy

Quiz on lesson VI in Applied Economics

1. What is the Robber that Henry George says "takes all that is left"? _____
 2. There are many ways that wealth is diverted from producers to non-producers. In addition to tariffs, there are unjust taxes, government waste, corruption, monetary inflation, and monopolies. If all these diversions to non-producers ended, who would gain the benefits, labor and capital? ___ Or, land owners? ___
 3. Do land owners, as land owners, produce the value of land? ___ Or, do Land values arise from the increase of population, which is enhanced by the infrastructure and material progress ___
 4. As technologies advance, the price of products, like computers, go down. Do labor and capital enjoy the benefits? ___ Or, does the cheaper cost of living enable producers to pay more for the land? ___
 5. If the workers had free access to land, could the private ownership of capital enable the owners of capital to take an increasing part of what the workers produce? ___ Would we still need the Minimum Wage? ___
 6. Henry George concludes: as long as land is private property, free trade will only increase the value of land in general. However, suppose that land speculation stopped, free land became available to everyone, and wages, even of the least demanded workers, were far above the minimum. Under those circumstances, would free trade, which does increase productivity, also increase wages? ___
 7. Henry George believed we should make all natural opportunities common opportunities. This would include the entire surface of the Earth --- minerals, soils and water ways, air, wind and the Electro magnetic spectrum. When ever exclusive rights to land are given to individuals and corporations, as they are and must be to insure property in the improvements, George believed they should be conditional upon payment of the land's rental value to the community. Governments must represent the community and act as their agent. In this case governments would collect the rent.
- Henry George also believed that all other taxes, like the those on income, wages, sales, and profits, should be abolished because they taxed away the rewards of producing. These two policies --- common opportunity in land, and the absence of taxes on products or producing he calls: True Free Trade.
- Does "True Free Trade" conflict with the principle that the product belongs to the producer? ___
8. Which of the following would logically be expected to result from "True Free Trade": Increased productivity; ___ Full Employment; ___ Increased Wages & Interest; ___ Less International Trade; ___
 9. Would taxing only the rental value of land be a natural limit to the government? _____
 10. With which ideas does George agree or disagree with socialists? That competition is an evil by itself and should be abolished. _____ The government should own all the capital and employ all the workers. _____ Businesses which are in their nature monopolies --- like the railroads and highways, water and sewer pipes, electric, telephone and cable TV wires should be owned and maintained by the government. _____