“Tariffs Will Make America Great Again?”

By Mike Curtis

The Federal Government was funded largely by tariffs from its beginning and throughout the 19th century when America had the highest wages in the world. Today tariffs are being advocated once again with 56% of Americans in support. We need them, they say, because corporations are exporting jobs. We are importing cheap products made by people who are paid food, clothing, and shelter — just enough to keep them from getting too weak to work. The only way Americans could compete is to live like slaves as well. Tariffs enable higher prices out of which high wages can be paid, and corporations retain the incentive to invest in American factories. In short, they say: Tariffs prevent wages from falling to the lower levels of other countries.

Look out the window of a passenger train as you pass through Philadelphia. Factory after factory sitting idle collecting trash. These were once thriving centers of industrial might, employing hundreds of thousands of people. Now they are idle because their owners shut them down and built new factories in other countries.

We have heard the academics explain how trade goes both ways, the more you give the more you get. The reality is different. For decades Americans have been buying billions and billions of dollars worth of foreign products in excess of the value of the products bought from America. The more people buy from other countries in excess of what we sell them, the more worry there is about jobs for people here in America.

Here is how it works: Whenever people in other countries have a claim on U.S. dollars, the money buys American products and it increases U.S. exports. It includes inheritances, remittances, Foreign Aid, and the return to foreigners for past investments in the U.S.

An excess of imports over exports happens in two ways. The first is for foreign companies to send products to America and invest the money they receive in America. For example, in the late 1970s many Japanese cars were sent to the United States. Instead of exchanging them and taking American products back to Japan, they invested some of the money here. Even though there was a trade of equal value (money being the medium of exchange), because they left some of what they bought in the U.S., it showed up as a trade deficit (more being imported than exported).

The second way the deficit increases is when Americans take profits from previous investments in other countries. Suppose Americans invested in companies that make cell phones in China, some of the phones are sold in the US, but instead of an equal value of American products going back to China, some of the money is given to the American investor as a dividend. It adds to the excess of imports (trade deficit).

As long as foreign wealth is exchanged for productive capital (buildings, machines, inventory, infrastructure), it increases productivity, on average, more than the exported products that are the return on the investment. So, both the foreign investors, and the domestic borrowers benefit from the investment.

Unfortunately, some of the products that come into the country are being exchanged for land (natural resources). The only reason to buy land in a foreign country is so that in the future you can take the products made by the people of that country without giving an equal value in exchange. Look at the impoverished countries of the world, Foreigners and foreign corporations take their raw materials and agricultural products, while the majority of their citizens live in poverty. Whether it is called foreign capital investment, or colonialism or imperialism, it is the exploitation of the people.

Import tariffs will not stop the export of products for which nothing is exchanged; they represent the rent of land. Tariffs discourage foreign investment into the United States, and they also discourage, with equal effect, products coming in to be exchanged for products being made by Americans for export.

Tariffs do not raise wages. They distort the profit motive and divert labor and capital-products from their most efficient applications — reducing the total output of the country. Free-trade increases production by directing labor and capital-products to their most efficient applications, utilizing the gifts of nature that are most conducive to the making of each specific product. However, while reducing tariffs increases productivity, it does not deliver the expected jobs or raise wages. This was seen with the North American Free Trade Agreement (NAFTA). That is because employment and wages are not determined by productivity.

Tariffs are a scam. They reduce productivity far more than they enrich those who are protected by the tariff. It is one of the few taxes that actually does reduce production far more than the revenue it provides. Tariffs increase prices and, therefore, encourage domestic competition until the profit margins tend to the common level of other products. It is the landowners who provide the materials for the protected products that are the ultimate beneficiaries. That is because tariffs can not stimulate the production of land that contains the raw materials: iron ore, copper, bauxite, chrome, etc. By contrast, the countries who’s products have tariffs levied against them usually have a far greater abundance of the resources, and that is a big reason they are able to sell the products so much cheaper. Export subsidies are a foreign taxpayers gift to the American consumer.

Unfortunately, the majority of Americans are now focused on the need for labor, like a wage slave who needs work, and enjoys no benefit from efficiency. There is no doubt, with tariffs it requires more work to attain the same result. But, do tariffs result in more jobs?

Political economy is not complicated, but a question like that is very complicated. Whether valuable unused land is sold or not determines the number of new jobs or units of housing. Exactly how the selling price of privately owned land is affected and affects the number of jobs when tariffs are imposed or removed is a complicated phenomenon. Land speculation (non-use and underuse of land is the root cause of unemployment, low wages and a shortage of housing. Tariffs reduce productivity and therefore, the value of land. So, the question is: When tariffs are applied, are the owners of unused land with reduced value more or less likely to sell? If they sell, there are more jobs. By contrast, free trade increases productivity and the value of land. So, are the owners of unused land with increasing value more or less likely to sell?

It is easy to look at the historical record and see whether there were more or less jobs created after tariffs were increased or diminished. However, these statistics are affected for all other government actions and the business cycle. In 1930 tariffs were grossly increased to counter the recession that began with the stock market crash in 1929. By 1932, 25% of the population were unemployed in the worst depression in history. The tariffs were reduced under the next presidential administration, but there were many other policies and make-work programs to counter unemployment. And still, unemployment lasted, to various degrees, for most of the decade.

It is possible to imagine that the owners of valuable unused land would sell as the value declined, but in 1932, land values in general were thought to have fallen by 75%, yet the depression continued on for years and years. By contrast, the adoption of free trade, or even freer trade will increase land values. And the increase in land values is the motive for not selling land, which is the cause of recessions and depressions. So, both, an increase or decrease in tariffs can indirectly cause unemployment.

The only solution is to shift all taxes to the value of land. That would simply charge each person for the value of the benefits received. It would force unused and grossly under-used land into use. In the process it would stimulate the economy, and the burden of taxes for those who were fully using their land would be less than it is right now.

Today, our president is trying to attract foreign investment. Some of that investment will be factories with machinery and inventory. It will also be the land that everything is built on, grows on, and is made out of. The only reason to buy land in another country, is so in the future you can take products out of the country without giving an equal value of products in exchange. Look at the impoverished countries of the world. Foreigners and foreign corporations take their raw materials and agricultural products, while the majority of their citizens live in poverty.