

The Case for Free Trade



by
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I. Introduction

- A. A few months ago, the United States flexed its muscles and demonstrated the awesome power that belongs to a modern superpower. We stopped our citizens from eating Italian pasta. Not to be outdone, the European Common Market promptly heightened its macho image by preventing its citizens from eating Californian fruit and nuts.
- B. This is the trade war and we wage it against our friends.
- C. In recent months, we have restricted the export of textiles from Taiwan, Hong Kong and South Korea. These countries are supposed to be our friends, but we treat them like enemies.
- D. In the whole of Indo-China, we have one friend. Not VietNam, nor Cambodia, nor Laos. Of course it is Thailand, whose major crop is rice and whose principal customer is the US. To ensure the rice growers of California would live well at the expense of the American consumer, we recently stopped the Thais from earning a living by closing our market.
- E. These countries don't need enemies when they have us as friends.
- F. Some of you have been to the Canadian Expo in Vancouver. You'll have enjoyed the great promotional exhibits for British Columbia. They lacked only one thing - mention of the 14% unemployment in the Province.
- G. When I was there, the news broke President Reagan's 35% tariff against Canadian shakes and shingles, which not only forced Americans to pay a lot more for their roofing, it also threw several thousand Canadians out of work.
- H. The Prime Minister was livid. In parliamentary language, he accused the President of 'kicking Canada in the slats' and promptly banned imports of American books, computers and chips. We pay our politicians a lot so they can make friends and influence people.
- I. If the Russians blockaded our ports with submarines and refused to let our friends supply us, we would be angry enough to go to war. Well, we don't need the Russians. We've got the US Government to blockade our ports and trample on our friends.
- J. I can see a scenario wherein our friends, such as South Korea, or Thailand, or Taiwan, find economic trouble because of our protectionist nonsense. I can see the Communists begin to push 'em and our young men, with inadequate weapons, be drafted to face the threat.

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- K. I can see this, because it has happened before. In the early thirties, both the U.S. and the British Empire used protective tariffs against the Axis countries. The 1930 Smoot-Hawley Tariff and the 1932 Ottawa Agreements successfully prevented Germany, Italy and Japan from earning their keep. The situation was ripe for the maniacs to take over and propel us all into the blood bath of the second world war.
- L. The US lost some 320,000 dead to protect her textile industry from competition. It took 380,000 British dead and another 100,000 from the Empire to protect the aging Lancashire cotton mills from Japanese tee-shirts.
- M. In economic terms, was it worth it? Did Smoot-Hawley help our trade position? Well, within two years 25 of our trading partners had retaliated against us. Within 3 years, our exports had dropped 60%.
- N. And the Ottawa Agreements began for Britain a course that reduced a mighty free trade alliance covering a quarter of the earth's surface to a tiny socialist island off the coast of Europe. The Germans, Italians and Japanese weren't responsible. It was the protectionists, the 'Buy British' advocates, who brought the country to ruin.

II. The Problem

- A. The figures I will use are mostly from the late 70's and early 80's. Many of them are taken from information provided by the Federal Trade and Federal International Trade Commissions. Some other sources are noted.
- B. First, to place international trade in perspective, about 1 in 6 American workers directly faced import competition. About 1 in 6 were involved in production for export. So, every job 'saved' by tariffs, quotas, or other political intervention places another job in jeopardy.
- C. And these 'jobs in jeopardy' represent efficient companies. When a competitive business is trashed to keep an inefficient operation alive, economic vitality is lost. An economy cannot provide a good standard of living when political policy deliberately reduces the general productivity of its workers.
- D. The problems we confront are not so much economic, as political. There are two directions for economic policy. We can choose the market, or we can choose privilege. 'Privilege' is a technical term meaning 'private law' (privi - lege). It is legislation that benefits one person at the expense of another.

III. The Contestants

- A. In trade, as you might imagine, we have the edge in some areas of production and they have the edge in others. Their advantage rests in things like Footwear; Apparel & Textiles; Electronic Goods; Basic Iron and Steel; and Motor Vehicles. We beat the pants off them in

Agriculture, Chemicals, Industrial Machinery, Scientific Instruments and, perhaps the most interesting, International Services.

- B. Services rose from a total of \$351 million in 1958 to \$26 billion in 1980. It seems we prefer to earn our wages using our brains in air-conditioned offices.

IV. The Scaremongers

- A. Now, we are told this is a pretty bad thing, for you see we are likely to lose interest in our basic industries. This is mainly dirty, dangerous, relatively low-paid manufacturing work. Only about 1 in every 4 Americans now labors in these 'smokestack industries' and we're told that this means we're going to the dogs.
- B. I've noticed that most of the people who deplore our loss of smokestacks haven't got their hands dirty in years - if ever. They may have dabbled in some dirt to get pocket money during college, but to go everyday, every week, all year, to a place where molten steel will burn you, or jagged metal will cut you, or the roof will collapse and bury you, is not what they are used to. Yet they feel others should do it. It's good for the country.
- C. They want their own kids, not to take honest work in dirty clothes at the bottom of the pitshaft, but to go to college, there to learn how to wear a white coat in the laboratory, or a pressed suit in the executive suite. Honest toil at the blast furnace is something other patriotic kids should do.
- D. The farmers of free trade England, in all weathers worked long underpaid hours to produce half the food the English ate. The other half was produced in the one square mile of the City of London by well-dressed and well-paid businessmen working from 9 to 3. You can judge which is better. I've already made up my mind.
- E. Incidentally, the final irony is that, as I mentioned, only 1 in 4 (23%) Americans are now industrial workers. You can compare this with 30 years ago when fully a quarter worked in industry.

V. Protection is Expensive

- A. Make no mistake about it. Protection costs an arm and a leg. A number of studies are available which estimate the heavy weight of 'protection'. Many economists are now suggesting that if we feel that industries must have help, they should not receive it with under the counter tariffs, but with direct subsidies, direct grants of money. At least, these would appear in the accounts and be visible.
- B. Henry George made that suggestion 100 years ago in what is probably the best argument ever written for free trade - George's "Protection or Free Trade". I am not sure he would echo the sentiment today. When he made it, the budget was considerably smaller and a subsidy would

loom large in the books. In modern budgets it would disappear among the other billions.

VI. Costs

- A. The tariff operates invisibly and harmfully to depress the wages of the American worker. A study this year (1986) by the Federal Reserve Bank of New York reported that higher prices in protected industries were an effective income tax surcharge ranging from 5% on the wealthy to a whopping 65% on the poor.
- B. This is really a tax on the middle class, for as prices squeeze the poor, demands for increased welfare payments grow insistent and the load on the taxpayer mounts higher. You will pay directly in higher prices, and indirectly in taxes to help the poor who are crunched by higher prices.

VII. Buying Jobs the Hard Way

- A. The costs of these tariff and import obstacles is enormous. The protection of textiles lays heavy on the American worker to the extent of \$24 billion a year. This burden mostly falls on the poor. Expensive tee shirts and high priced sneakers are not a Yuppy problem.
- B. The poor are subsidizing the poor. The average wage in the apparel industry in 1977 was under \$7,000 a year. Protection saved their jobs but it cost the consumer in higher prices no less than \$46,000 to save each job. The 21,000 jobs in the sneaker industry, that's shoes, boots and sandals, paid a little over \$8,000 a year. Those jobs cost us \$78,000 each to protect. Now, it's pretty evident that these are not exactly superior jobs, but they sure need a lot of expensive protecting. It would have been cheaper to have doubled their wages and sent them home.
- C. The picture in what is lugubriously called 'high tech' is the same. Citizens' Band Radios are, as we know an essential item of national defense, not quite in the MX missile category, but close. No less than 587 stalwart people make these transistorized marvels, and in keeping with their skills and stringent training make an average \$8,500 a year. The tariff they got costs us \$86,000 a job.
- D. You might wonder how these calculations are made. Very simply, if a tariff protects 10 jobs at an extra cost to the consumer of a \$1,000 a year, each job costs us \$100.
- E. Anyway, I think an argument can be made that these clothing and footwear jobs are not exactly the most desirable to keep around here. Better they should be exported to south-east Asia.

VIII. Low Tech and High Prices

- A. Better paid jobs also scream for protection. The tariffs and quotas on steel save about 20,000 jobs paying an average \$24,000 each. Perhaps

these jobs are so good they ought to be saved. Trouble is that each \$24,000 job saved costs us \$85,000. In other words, we pay the steel industry in higher prices \$2 billion each year. That is the weight that steel protection puts on the backs of other American workers.

- B. Even as big steel is faltering, so is little steel doing well. Around the country, 'mini-mills' are proliferating and they offer some interesting comparisons. The average American steelworker produces 350 tons each year. His Japanese counterpart knocks off some 750 tons in 12 months. The American mini-mill worker churns out more than 1,200 tons per capita.
- C. Now the problem is that the workers in the mini-mill are often not unionized and they tend to be enthusiastic. Workers aren't paid the union contract's \$22.50 per hour in wages and benefits. They must make do with a measly \$17. But the plants are modern, efficient, and have already captured 20% of the market.
- D. However, they are converters and rely on imports and the protectionists are in full cry for more quotas on imported semi-finished steel and scrap. This has led to West Coast steelmen threatening to close down, or move to Canada, if such restrictions are enforced.

IX. Copying the Europeans

- A. But, that's because they don't realize how bad the situation is. We are lucky to have Donald H. Trautlein tell us. He's Chairman and Chief Executive of Bethlehem Steel Corporation. He explains that domestic steel producers lost \$6 billion in '82 and '83.
- B. My immediate thought is if the business is so bad, he should do what we have to do - get out of it.
- C. However, Donald has different ideas. In the same speech he reminded us that the major steel companies in the European Economic Community over ten years managed to lose something more than \$25 billion. But! - that during that 10 years European governments generously gave \$25 billion in capital gifts to their steel producers and are ready to give \$10 billion more. They lost 25 and they got back 25 - with more billions to come. I may be overly suspicious, but do you think Donald is trying to tell us something?
- D. One can almost see him licking his lips in anticipation of an American slushfund of similar proportions. Yet, it seems to me that if steel is such a chancy business, he ought to get out of it - or start up some mini-mills and make some real money.

X. Servicing the Auto Industry

- A. Then, there is the Automobile industry. We all know the American love of the automobile. In recent years, however, this affection has turned from the respectable union with a Detroit debutante to a rather more satisfactory relationship with a Japanese geisha.

- B. To battle this problem came voluntary restraints on Japanese imported cars. Just as an unfavorable balance of trade means a favorable balance, and a progressive income tax means that it's retrogressive, so does a voluntary restraint mean it's involuntary.
- C. The voluntary restraints hurt us. As the Wall St. Journal put it, buying a car became a "war zone" for buyers and a "gold rush" for the dealers. Yet, what American is not willing to sacrifice for the good of the country?
- D. The car companies were certainly prepared to sacrifice. To show their gratitude to us for helping them sell American, they raised their prices. In September '84, General Motors quietly raised its prices 2.3%. The idea appealed to them so, four months later, they raised them another 2.3%. Doesn't seem much - 2.3% - but each increase was worth about \$1 billion more to GM.
- E. Ford might be #2, but it knew a good thing when it saw it. It also announced a 2.3% increase. All these auto executives must have gone to the same business school. However, Ford had a better idea. It announced a 2.3% increase, then actually raised prices by 5%. Chrysler entered into the spirit of things but, under Iacocca is, of course, a class act. They announced a 5.7% decrease, then added \$462 to the price. Now, that's class!
- F. Chrysler gratefully awarded its top executives \$52 million in bonuses in 1984. Ford gave \$142 million to its top 5,700 people. General Motors gave \$228 million to its 5,800 top men and women. That's \$40,000 apiece. Not really apiece, the men at the top who meet over lunch and 3 martinis to decide important things like 2.3% got the lion's share of the booty. For booty it was, stolen from the American people by political intervention in the marketplace.
- G. But, at least the political dealing saved jobs. The US International Trade Commission figures the quotas saved some 44,000 auto jobs. They also figured the four year cost to American consumers was \$15.7 billion which works out at \$357,000 a job.

XI. The Profits of Protection

- A. How much more per car did the restraints cost the American buyer? Even the Los Angeles Times did a survey. They asked the dealers. I prefer more basic figures.
- B. Asahi, the Japanese newspaper, reported that f.o.b. dockside prices of Japanese autos had increased from \$4,300 in 1980 (before the restraints) to \$6,800 in 1984. That's \$2,500 extra per car. This doesn't mean that the 'average' selling price in the US went up \$2,500. What, without doubt, it meant was that the Japanese were sending bigger and more expensive cars within the quota restrictions. So, the price of the Honda Civic went up, say \$1,500, but there weren't any to buy. You had to spend a lot more money for an Accord.

C. Needless to say, Japanese auto manufacturers loved this American nonsense. They make an average \$2,200 profit a car in the States, as against about \$240 in the fiercely competitive Japanese market. This is why a quarter of Toyota production and a third of Honda's comes to us.

D. Detroit makes 5 times the profit made by the Japanese at home. Which, I think, leaves plenty of room for some competitive price-cutting by Detroit. Remember, every dollar made in Detroit multiplies on its way to the retail market. On it are piled taxes, intermediary profits, transportation costs, and so on. A dollar less for Detroit becomes a heck of a discount by the time it reaches us. And they have something like \$1,200 a car to shave.

XII. Upcoming and Dangerous!

A. Meantime, wandering around in the wings is the proposed 'domestic content law'. If this turkey ever becomes law, some 58,000 jobs would be saved, with earnings averaging \$23,000 apiece.

B. Good? Not quite. According to Wharton Econometric Forecasting, to save 58,000 jobs, the law would cause the loss of 88,000 jobs importing, servicing, and selling imports. And, this is the direct loss. Wharton points out that higher prices, restricted growth, and reduced exports, is likely to wipe out another 335,000 jobs.

XIII. Microfiche and Chips

A. But, in one area, there is little disagreement. Everyone knows the Japanese are destroying our computer chip industry by flooding our markets with cheap chips. People who don't even know what a chip is know that. Unfortunately, it's not exactly true.

B. We don't appear to do as well in Japan as they do here, but it's a matter of statistics. They have about 17% of our market. We have either 11% or 19% of theirs. (It depends on whose figures you accept.)

C. The US Semiconductor Industry Association loses an argument even as it tries to make one. "In all markets except Japan," it says, "the US semiconductor industry outperforms its Japanese counterparts by a wide margin: In Europe, by nearly five to one; in the US and Canada, by six to one; and in the rest of the world, by three to two in 1984."

D. Now, this statement from the official body hardly sounds like the croak of a dying industry. Nor does it show their concern that nearly 40% of the world's chips are Japanese, leaving the US with just over 50%. What they were really trying to say was that the Japanese home market is so competitive, it's a hard nut to crack.

E. Price cutting is the measure of a free market's success. With everyone trying to do things better and cheaper, prices drop. This is especially true of the chip industry. The process has been multiplied in the last

year or so. In 1984, investors rushed to board the chip express. The industry grew by 43% even as the market was being saturated by ever cheaper and better chips.

F. In 1985, 64k chips dropped from \$3.50 to 50 cents as orders dropped by 50%. The new plants looked out at a declining market. *All the plants*, for the Japanese found themselves sitting on enough inventory (93 million chips) to supply US industry for 3 months.

G. Chip producers, such as those old American stalwarts like Fujitsu, Hitachi and Toshiba, suffered horrendous losses. Hitachi, by the way, had aggressively told its salesmen to underbid any opposition quote by 10%. As it courted bankruptcy, no doubt it changed that policy.

H. As did the top five American firms, who saw their \$1.3 billion profit of 1984 drop to a \$343 million loss in '85. Smaller firms suffered too. Advanced Micro Devices not only cut back on hours and wages, it really sacrificed. It cancelled its Christmas party, which in 1984 cost them about \$1 million. These chip companies sure know how to bite on the bullet.

I. The chip production pendulum is likely to swing up again in '86. Already, investment analysts are beginning again to look favorably at the companies. Particularly, as smaller firms are turning to the manufacture of specialist chips - Application-Specific Integrated Circuits (ASICs). As you might expect, the real money goes to custom business, not the large volume low-price products.

J. What happens when we listen to the self-serving screams for protection? One New York vendor of computer expansion boards reported that a recent Commerce Department decision on dumping will up his costs by some \$200 per board. This is a heavy burden on the consumer - which means lower sales and further problems elsewhere in the industry.

XIV. American Free Trade

A. We pride ourselves as Free Traders, yet about one fifth of our manufactures are protected and the trend is up. The annual cost to Americans has been estimated as about \$450 for every working man and woman in the country.

B. The list of protected goods ranges from sugar and dairy products, to chemicals, canned tuna and peanuts. Let's look at some examples.

C. Want to re-tile the bathroom? Tiles carry a 25% tariff, which costs the American consumer \$116 million a year.

D. I've mentioned clothing. Textiles as a whole suffer a hefty 26% price increase because of tariffs and quotas, which costs us about \$27 billion a year, or about \$42,000 for each textile job protected.

- E. Overseas, American import quota permits are granted to individuals, who promptly make a buck selling them. There is a brisk trade in permits. The Hong Kong price for a quota permit for a sweater reached \$6.50. Guess who pays that? Of course, we do.
- F. You may not want to wear sneakers with your expensive sweater, but if you do, you'll pay for it. Protected rubber footwear costs us \$230 million a year, I suppose most of it falling on the poor.
- G. When your kid in his expensive sneakers gets home from school, you'll probably give him a glass of milk. The dairy industry spends a lot of money keeping the price of milk high. Prices are fixed by accomodating politicians, and competing dairy imports are kept out.
- H. Much was made of the \$400,000 that President Nixon got from the dairy cooperatives. Not noticed was the \$600,000 that democratic congressmen got at the same time. Those who enjoy privilege give indiscriminately to anyone who will maintain and extend it. The cost to the consumer is horrendous.
- I. If your kid you would like a peanut butter and jelly sandwich with your glass of milk, you are going to pay through the nose. Protected peanuts cost us an extra \$170 million each year. The sugar that makes up half the jam is so heavily protected, it costs twice as much here as it does in Canada. Figure everything made with sugar costs a bundle because of protection.
- J. To get US copyright protection, books must be printed and published here. That little regulation raises your reading costs by one half billion dollars every year.
- K. One of the more outrageous tariff swindles concerned motor-bikes. Congress passed a special 'temporary' tariff of just under 50% to protect one company - Harley-Davidson. The bikers who speed and the police who chase them must pay an extra \$104 million each year. That's \$42,000 to protect each Harley job, much of it coming out of our taxes.

XV. It Can Be Funny

- A. Taxes burdens push people into amusing paths. Light trucks are popular. To force Americans to buy from Detroit a special 25% tariff was imposed. To avoid the tax, Subaru put a couple of bucket seats in the back of their 'BRAT' and called it a car.
- L. In England, vases were considered luxury items and suffered a high tax. Jugs were utility items and were untaxed. So a lot of vases were made with handles and were called jugs. New jewels got 100% tax, so you couldn't find a new diamond. Every one became instantly previously owned.

XVI. The American Way

- A. There's a better way. Black and Decker held 20% of the world market in small tools. Let me repeat that. Every fifth small tool in the world was made by Black & Decker. That's not bad for one American firm. The Japanese firm - Makita Electric Works - launched a determined effort to grab their market. Black & Decker's world share dropped to 15%, which still isn't bad. So, they overhauled, consolidated, slimmed down, and came out selling. They got back their 20% share.
- B. Do you think they would have bothered if the the cold wind of competition hadn't licked around their ankles? If they had been featherbedded with tariff protection, they would probably have been content to live on their fat. Or, rather, on our fat.

XVII. Competitive Terror - Japanese Production

- A. A final vexing question. How can we possibly compete with Japan? They can make practically everything cheaper and better than we can. Or, almost everything. Yet, in Japan, if you buy a soft drink, it is likely to be a Coke. Coca-Cola owns about 60% of the soft drink market.
- B. And if, in Tokyo, you get a burger with your Coke, it is likely to be a Big Mac. In fast-food in Japan, MacDonald is #2.
- C. For more than quarter century, Polaroid has been in Japan. Every year has been a new sales record.
- D. If you shave in Japan, it will probably be with a Schick razor. Schick has 70% of the Japanese safety razor market.
- E. Fifty percent of all the disposable diapers used by Japanese mothers come from that famous Japanese firm, Procter & Gamble.
- F. IBM doesn't sell much in the way of computers in Japan. The reason is they don't offer service. We pay extra for IBM because if something goes wrong, the IBM man arrives this afternoon. Not so in Japan, so IBM has to be content with a modest business - about \$3 billion a year. I said billion.
- G. And if you answer your Tokyo doorbell to a pretty lady, she will probably tell you in Japanese that 'Avon' is calling. There are some 160,000 Avon ladies ringing doorbells in Japan.

XVIII. Competitive Terror - American Production

- A. Americans should tell their inferiority complex to get lost. American workers are among the most productive in the world. We should remember that the country which excites most fear in the hearts of foreign anti-market capitalists is the United States. People overseas love American goods, because they are good and they are cheap.

B. Yes, they are cheap. Why do you think the foreign idiots try to keep out American goods? Because they are too shoddy and expensive for people to buy? No, it's because we are too competitive for their expensive monopoly production.

XIX. Postscript

- A. The young United States had two things going for it. Free, or very cheap, land - and a free market. Both these advantages are disappearing. Can you imagine what things would be like now had these enormous lands been owned by an established nobility?
- B. Can you imagine what conditions would be like if individual states had been given power to impose tariffs? I suggest that now we'd be a bunch of city-states quarelling with one another.
- C. In fact, if the States were able to protect themselves from each other, I suspect none of you would be here listening to me. You'd be out serving the consumer. You'd be at the Arizona border smuggling goods into California.
- D. The protectionists and their puppets, the politicians, are plenty active in those unenlightened foreign places. If we want to maintain our standard of living in the US we'd better not be seduced into mimicking their stupidities.
- E. Be a free trader, cherish and support the American economic system, which is successful not because of protection and restriction, but because it is free.

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This modular speech in working form is on one side of 8 1/2 x 11" sheets . The page numbers correspond to the working version. In use, you do not use all the information in this speech (which would take you from 35 - 45 minutes to complete. Rather, you abstract the paragraphs you like and fashion your speech from them. Normally, you target a length of 20-25 minutes. As you become practised, you will add your own paragraphs, or change the present set, until the speech becomes highly personalized and very up-to-date.

Best source for additions and changes is the daily newspaper. Nothing is more appreciated by an audience than a preface to your speech in which you mention items that have just occurred. Immediately, the speech becomes alive!