

Restriction unbecoming

HENRY GEORGE'S *Protection or Free Trade* (PFT) was published in 1886. Readers should find the exposition both revealing and stimulating. Examples abound. "Trade is not invasion. It does not involve aggression on one side and resistance on the other, but mutual consent and gratification." (PFT, 46)

Yet restrictions imposed by political (governmental) force have a long history. For example, one complaint of the American colonists against Britain was London's imposition of restrictions on trade. After achieving political independence, some leaders of the new republic advocated restrictions to encourage manufacturing.

For nearly a century before 1886 the tariff for protection was a major issue of domestic politics. Influential groups pressed for restrictions as a means of encouraging specific types of industrial development.

Man-made obstacles to trade, it was argued, could foster economic progress; opponents pointed to adverse effects for consumers and exporters. It was the pro-restriction argument that George attacked. The term "protection" carries overtones of merit, connotations of something beneficent. Does it not prejudice the case somewhat? "Restriction" seems to me preferable.

The division of labor and exchange facilitate man's efforts to rise from barbarism to civilization, from poverty and gross inequality toward generalized economic well-being. *Where each family raises its own food, builds its own house ... none can have more than the*

• 150 years ago HENRY GEORGE was born at his parents home in South 10th Street, Philadelphia. He grew up to become one of the most radical home-grown social reformers produced by the United States.

• Among George's famous books was *Protection or Free*

Trade, a clear exposition in favour of breaking down the barriers to the free movement of wealth produced by nations.

• C. LOWELL HARRISS, Professor Emeritus of Economics, Columbia University, argues that the lessons contained in that book are still relevant today.

barest necessities ... This social condition, to which the protective theory would logically lead, is the lowest in which man is ever found — the condition from which he has toiled upward. He has progressed only as he has learned to satisfy his wants by exchanging with his fellows and has freed and extended trade. (PFT, 51).

Who would possibly challenge the historical record? No one. Yet the lesson is denied implicitly in arguments advanced time and again. Tariffs reduce the total real income of the economy.

However protection may affect special forms of industry it must necessarily diminish the total return to industry — first, by the waste inseparable from encouragement by tariff, and, second by the loss due to transfer of capital and labor from occupations which they would choose for themselves to less profitable occupations which they must be bribed to engage in. If we do not see this without reflection, it is because our attention is engaged with but a part of the effects of protection. We see the large smelting-works and the massive mill without realizing that the same taxes which we are told have built them up have made more costly every nail

driven and every needleful of thread used throughout the whole country. (PFT, 101).

Or today the steel industry's success in restricting imports makes us worse off. Workers in factories that require steel for export products — e.g., heavy machinery — suffer. Getting anything like rational discrimination in a policy of governmentally determined restrictions is impossible. As one industry benefits, those which use its higher priced products must suffer.

But to introduce a tariff bill into congress or parliament is like throwing a banana into a cage of monkeys. No sooner is it proposed to protect one industry than all the industries that are capable of protection begin to screech and scramble for it. They are, in fact, forced to do so, for to be left out of the encouraged ring is necessarily to be discouraged.

... Now every tax that raises prices for the encouragement of one industry must operate to discourage all other industries into which the products of that industry must enter. Thus a duty that raises the prices of lumber necessarily discourages that industries which make use of lumber, ... a duty that raises the price of iron discourages the

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Bold home plan aids local young

The soaring price of residential land has driven young, first-time buyers out of the housing market in Britain, writes Ian Barron.

House land in the south of England can now fetch £1m an acre.

In a bid to overcome the problem, Pershore Council is collaborating with two builders to provide land at below market prices.

Buyers, who will have

to be local residents, will pay only 70% of the market value of their new homes, which will be on 99-year leases. The remaining 30% will be rented for £1 per annum.

Known as the Wessex Shared Ownership scheme, the development in Worcestershire will be privately funded "and can only be made workable by using land at significantly less than

market value of building land," according to a spokesman.

Land for similar schemes will have to be obtained in one of two ways:

- Local authorities can provide sites at subsidised prices, to help families to overcome the problem of house prices that have soared beyond their budgets; or

- Farmers and land-owners can sell farm-

land (worth up to £2,000 an acre) for £10,000 to £50,000 an acre. Clive Pultney, director of Wessex Housing Ltd., says that these prices, "although considerably [less] than for building land, compare very favourably with agricultural land values."

The hope is that land-owners will offer land which would otherwise not receive planning permission.

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innumerable industries into which iron enters; ... a duty that raises the price of sugar discourages the fruit-preserver, the maker of syrups and cordials, and so on. (PFT, 168-9).

Note that the recent restrictive decisions of the U.S. government have applied to lumber, steel, and sugar! In discussing the relationship of tariffs to wages, George says:

It is not true that the products of lower-priced labor will drive the products of higher-priced labor out of any market in which they can be freely sold, since, as we have already seen, low-priced labor does not mean cheap production, and it is the comparative, not the absolute, cost of production that determines exchanges. (PFT, 198-9)

People subjecting themselves to restrictions on trade deprive themselves of opportunities to satisfy their wants. Elsewhere in PFT it is said:

It might be to the interest of [lighting] companies to restrict the number and size of windows, but hardly to the interests of a community. Broken limbs bring fees to surgeons, but would it profit a municipality to prohibit the removal of ice from sidewalks in order to encourage surgery? Yet it is in such ways that protective tariffs act. Economically, what difference is there between restricting the importa-

tion of iron to benefit iron-producers and restricting sanitary improvements to benefit undertakers?

George's advocacy of free markets and his condemnation of restrictionism included the explicit prediction that fraud and corruption are to be expected. The larger the scope of governmental action, the larger the scope for corruption (which will not be corrected by bankruptcy in the market place). Political realities can lead to results rather unlike the dreams of advocates.

One chapter after another of *Protection or Free Trade* deals with these misleading arguments of a century ago - some are still alive - which favor protection. For example, in referring to the infant industry argument, Henry George has words relevant to recent proposals for a new "industrial policy."

So it is with the encouragement of struggling industries. All experience shows that the policy of encouragement, once begun, leads to a scramble in which it is the strong, not the weak; the unscrupulous, not the deserving, that succeed. What are really infant industries have no more chance in the struggle for governmental encouragement than infant pigs have with full grown swine about a meal-tub ... On the whole, the ability of any

industry to establish and sustain itself in a free field is the measure of its public utility, and that "struggle for existence" which drives out unprofitable industries is the best means of determining what industries are needed under existing conditions and what are not. Even promising industries are more apt to be demoralized and stunted than to be aided in healthy growth by encouragement which gives them what they do not earn (PFT, 96).

Today's advocates of restriction use somewhat different arguments from that of George's day. They now focus more on the need to reduce competition from abroad that challenges activities already established in this country - steel, garments, textiles, lumber, autos etc.

THE STRUGGLE for human freedom as against restriction of trade in America brought more defeats than victories for much of the half century after George began his efforts. The Smoot-Hawley Tariff of 1930 set new levels of restriction. Then this country took the initiative in reducing barriers, first on a bilateral basis, then on a broad scale. Drastic reduction in U.S. tariffs has been one of the outstanding achievements of political economy.

We owe much to Cordell Hull.

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LAND VAT INVESTMENT BLOW

BRITAIN'S construction industry is about to be hit by the introduction of Value Added Tax (VAT) on non-residential land.

The tax was forced on the Thatcher government by Common Market rules, and it will be levied on the transaction price when land is sold.

But under a new clause slipped into the Finance Bill passing through Parliament in May, the tax will also be payable by firms redeveloping land which they already own.

And the tax will fall on current market value, not on the historic cost of the site to the owners.

Barclays Bank is the first to fall foul of this change, for it plans to redevelop its £150m Lombard Street site. VAT at 15% adds £22.5m to costs, with

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another £22.5m VAT on the £150m cost of the building.

According to the Bank's managing director, Mr Andrew Buxton, about 4% of the land in the City, London's financial centre, is redeveloped each year. That means over a 20 to 25-year period all the land in the City is redeveloped.

So within that period all property in the City will have been liable to VAT. If City land is worth £20bn, that is £3bn VAT at today's prices - and according to Mr Buxton, the tax will seriously damage the City's ability to compete worldwide.

Ian Barron comments: a tax on the sale price of land seriously

undermines investment and the growth of the industrial economy. This has been shown by successive Labour government attempts in the postwar years to capture part of the increase in land values for the benefit of the community.

Landowners will now have less incentive to develop or redevelop their land, which will reduce productivity and curb both economic growth and the creation of new jobs.

On the basis of past experience, we can expect that this effect will more than offset the tendency for the tax to reduce the profit from the sale of land (the tax cannot be passed on by the landowner). A lower supply of land means that prices will actually rise in the market place.

Lord Set-aside's bonanza

LORD Sainsbury "farms" a 367-acre holding in Hampshire, one of the Home Counties with some of the most fertile agricultural land. Except that the lord, one of Britain's richest men, receives £30,000 a year for doing nothing to grow food.

He has joined the government's set-aside programme, which is supposed to reduce surplus food stocks. But now that he does not actively work the farm, Lord Sainsbury has decided to sell it to whoever wants to buy the acres and do nothing with them!

Asking price: £850,000 complete with buildings.

Says Euro-Member of Parliament Richard Cottrell, who thinks the EEC's farm policies are the height of folly: "It's complete madness. We don't want to give dockers a job for life so we abolish the dock labour scheme. Yet here we are giving a farmer a job for life while his green wellies are hung up never to see a farm-yard again."

According to Dr. James Jones, a lecturer at the Royal Agricultural College School of Business, land that is registered for the set-aside scheme "must be some kind of asset to the saleability of the farm."

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As he became Secretary of State in the 1930s, he set the course of tariff reduction which spread through much of the world. His ideas were formed in an era when George's efforts must still have been rather directly influencing opinion.

Every U.S. president for half a century has spoken out for freeing trade. The issues have not been markedly partisan for two generations at least until recently. With many more indepen-

dent countries, the opportunities for obstruction have multiplied. The variety of restrictive devices has increased. Non-tariff barriers are numerous and often largely hidden. We hear about unfair methods of discouraging imports and encouraging exports - a complex and frustrating set of conditions.

Competition grows more intense for several reasons. Consumers benefit. Some industries and their employees suffer. Typically they seem to prefer

burdening their fellow Americans by favoring restrictions on trade as against wage-rate reduction - an understandable reaction.

The potentials for mutual benefit from international specialization and exchange grow as incomes rise over the world. Areas not so long ago poor, Taiwan for example, are now the source of consumer goods that appeal to Americans and the market for American goods and services.