Importing Products Or Exporting Jobs

What do you think? Is the U.S. exporting jobs to China? In 2010 Americans bought $292 billion worth of products from China, and the Chinese only bought $55 billion worth of products from the U.S. That's $237 billion dollars worth of difference from China alone.

Does free trade, or restricted trade, or no trade most help the American Worker. Let us explore the question. There really is no significant segment of the population who will say: I am a Protectionist, and there really are no Free Traders. Those who say I'm for Free Trade mean: If other countries let their people buy from us we should let our people buy from them. Some people are for Fair Free Trade. They say: we should let our people buy from other countries an amount equal to the amount that people from other countries actually do buy from us.

What I am going to explain is that an excess of imports does not result in a reduction in the demand for American labor. That international trade, no matter how cheap the price of foreign products are, does not lower wages or cause unemployment. That protection, meaning tariffs, quotas, and export subsidies, cannot increase the total number of jobs or raise the general level of wages, and neither can free trade.

In recent years it has been the World Trade Organization (W.T.O.) that has negotiated the General Agreement on Tariffs & Trade. It's an organization who's members include representatives from 153 countries. Some are big like the U.S. and some are small like Belgium. China was not initially a member, and Russia still isn't. The World Trade Organization has 3 components. 1. The mutual reduction in trade barriers; 2. Rules for foreign investment & financial services like banks and insurance companies with customers in other countries. And 3. The enforcement of each other's patents and copy rights within the federation.

Does The World Trade Organization represent the consumers of each nation? Is it about creating the opportunity for consumers to buy at the cheapest possible price? Or, is The W.T.O. an organization of corporations and the governments that represent them in the process of negotiating the opening of each other's markets and investment opportunities?

In order to be a member in good standing, no nation may restrict the sale of foreign products, unless there is scientific evidence that it poses a health or safety risk to the consumers or the environment based on a standard negotiated by the representatives of 153 nations. And compliance is judged by a panel of arbitrators. So, for example: If the French government decided that English beef might have been be unsafe due to the possibility of Mad Cow Disease, it would have had to appeal to the W.T.O. judges for a ruling or be in violation of the agreement with stiff penalties.

The United States can ban the use of certain pesticides, but it cannot unilaterally ban food that has been sprayed with those same pesticides in other countries. In other words, no member nation has the right to decide for itself what products are safe for its own people, and remain a member of the The World Trade Organization. The United States requires its fisherman to use special equipment which protects Sea Turtles and Dolphins when catching shrimp and Tuna fish, but under the W.T.O. rules it cannot prohibit the importation of shrimp and Tuna fish, which were caught along with Sea Turtles and Dolphins unless the W.T.O. changes the rules.

The W.T.O. Representatives say it is broadening democracy. Its detractors say that the U.S. is not all that democratic, given the amount of money, and the outcome of recent elections, but many of those 153 countries are oligarchies and modern day Despotisms which in no way represent their people.

In addition to imported products, The W.T.O. regulates foreign investments and intellectual property rights, which make it a multi faceted and enormously complex agreement with thousands of pages. But, if we focus Just on trading products there is a big difference between negotiating access to foreign markets with universal standards of health, safety and the environment, and an independent country which allows its people the freedom to trade legal products with the people of other nations.

Many Environmentalists, Humanitarians, and Labor Unionists are against both the World Trade Organization Agreement and the concept of Free Trade. The last 3 Presidents (our current president sounding more like a Fair Trader) and until the recession, the majority of Congress contended that Free Trade creates jobs, increases production, and raises wages. While the advocates of labor contend that Free Trade exports jobs, lowers wages, and causes unemployment. We know that a large number of High Wage union manufacturing jobs have been lost. Many of the workers have accepted far lower paying jobs, and many are still unemployed. And the critics of free trade say: those jobs were lost and those workers had to accept lower wages because of Free Trade; because of cheaper Imports. The U. S. imported nearly $668 billion worth of products in excess of that which it exported last year.

Ironic as it may seem, one thing that all sides agree on, whether it's the President and Congress or the advocates of labor is that the more a nation exports above and beyond the amount it Imports the more it contributes to our national prosperity. And this we call a" Favorable Balance of Trade". Well, if that is true, what would give us the highest possible level of prosperity? The logical answer is to Import nothing and export everything.

In Henry George’s day (1883) Ireland exported far more than it imported. The absentee landlords lived on the exports to England. In our generation it’s countries like those in Central America that have probably exported a whole lot more than they imported over the last 100 years. With banana, coffee, and sugar plantations owned by American companies a lot of the fruit that went to the U.S. represented the profits of the companies. Therefore, nothing was was exported from the U.S. to those countries in exchange. What can we say about the rate of wages in Central America?

Just to set the stage: in America, tariffs were a major source of revenue for the national government, following the ratification of the constitution and its establishment in 1789. Tariffs were raised and lowered many times over the years, with a multitude of different rates for different products. On more than one occasion they averaged nearly 50% during the 19th century and seemed to fluctuate wildly depending on which party controlled congress. 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 which went from an average of 38% to a peak of 53% following the Smoot-Hawley Tariff Act of 1930. It was dramatically cut during the Roosevelt years, and by 1963 it was all the way down to an average of 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. Only a certain number of each foreign product was allowed in every year. Cars and steel were among the big ones. Under the General Agreement on Tariffs and Trade in operation before the World Trade Organization was established, these quotas were substituted for tariffs, and were scheduled to be phased out over the next ten years.

Today (2010), there are different rates for different products with an average tariff of just 1.3% for all imports. Automobiles are 2.5%, steel is less than 1%, and coffee is free. However, clothing is still between 16 & 32%, and sneakers are 48%. Orange Juice is 33%, while peanuts and sugar are taxed so much per pound and subject to a grossly higher rate after a certain quota is reached. Most products from Mexico and Canada have no tariffs under N.A.F.T.A., the North American Free Trade Agreement.

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. Tariffs diminish their profits, so they've reversed their positions and are now in favor of free trade. At the same time America is still loosing many smaller industries such as canned mushrooms and cut flowers.

Last year the U.S. produced around $14.5 Trillion worth of goods and services. The U.S. imported around $1.9 trillion, worth of things, which means about 13% of what was consumed in the U.S. was produced in other countries. The U.S. only exported around $1.2 trillion worth of things. That leaves a $668 billion dollar Trade imbalance, or deficit, which is equal to about 4.6% of the G.D.P.

Returning to the question: Why do we want to trade with the people of other nations? Could it be for the same reason we want to trade with the people of our own nation -- to satisfy our desires with less exertion. The diversity of nature impels people to trade. Everything does not grow equally well in all parts of the world; minerals are not found in equal abundance everywhere in the world.

In the words of Henry George: "...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"

I'm thinking of: The chemical Industry in Wilmington Delaware or the Autos in Detroit or Watches made in Switzerland. By trading, we enable each nation to produce that for which it is best equipped. We multiply the total body of knowledge and skill, increase the potential from economies of scale, and disperse the regional peculiarities of nature to everyone.

Tariffs are probably as old as any tax, because trade is the most significant way that human beings increase the results of individual exertions. Tariffs must be an irresistible source of revenue. A Sales Tax is simply a Domestic Tariff.

What is different about a protective tariff is the way it discriminates against foreign products and distorts the incentives. It rewards people who divert their labor and capital from producing the things they make most efficiently to producing things in which people of other nations are more efficient. And in the process they diminish the total production of the country. With a protective tariff, says Henry George, we attempt to do to ourselves in time of peace what we do to our enemies with a blockade in time of war; we prevent desirable products from entering the country. That is exactly what was done with the blockade of Iraq and the Embargo on Cuba.

The effect of protection is to raise prices. Therefore, In terms of what you can buy, protection reduces wages, which its advocates claim it will raise. None-the-less, we shall see how the protective tariff works, and who actually profits from it. Let's say, hypothetically, we levied a tariff on cars, and the price of cars went up until the return on every dollar invested in the production of cars increased by 5%. What do other American investors do, continue producing food, gasoline, and office buildings for the standard return, or do they start making cars in pursuit of the higher return? They may buy stock in existing companies, or start their own. Doesn't investment always seeks the path of the highest return? When the supply of cars increases due to the fact that more people are building them, what will then happen to the price of cars? The supply of cars will increase until the profits from making cars are no greater than the profits from growing wheat, making gasoline, or office buildings. Of course the existing car companies have the organization, know-how, and the patents, but others will make cars until their profits are no greater than they would be making other products. Although the profits from producing a protected product may be no higher, protected products will still cost more if the domestic producers are less efficient or the cost of their materials are higher, which is why we bought foreign products in the first place.

Now, by contrast, suppose a tariff is raised on foreign steel. What will happen to the price, and the demand for American steel? It goes up. As the price of domestic steel increases, what then happens to the demand for, and the production of American land containing iron ore? Since land cannot be produced, the price remains higher. That is, as long as it doesn't diminish equally the demand for iron to be used in export products made with steel. No one can produce a mineral or any other natural resource. The same thing applies to any monopoly.

Suppose we put a tariff on German steel that's being exchanged for American wheat. As Americans make more steel, the rent of land that contains iron ore increases. But since they traded wheat for steel, they now grow less wheat and the rent of land that grows wheat decreases. However, since Americans grew wheat more efficiently than they made steel, the total production of the country is diminished.

Let me reiterate: The more a nation discourages imports, the more it discourages exports. What one group of land owners gains from reducing imports, another group of land owners looses from a corresponding reduction in the demand for exports. However, by impeding trade, both countries give up some portion of the natural, cultural, and scientific advantages possessed by the other country, and their total production falls.

Even if one country could produce everything more efficiently than other country it would still be mutually profitable for them to trade. Take for example, two carpenters. Suppose a first class carpenter could do every job faster than a second class carpenter. He could saw boards, hammer nails, even sweep the floor one tenth faster. However, he could figure the pitch of the roof, frame the windows, and hang the doors ten times faster. By dividing the jobs, with the first class carpenter doing the most difficult they could build two houses much more than twice as fast as either one of them could have built one house. Even if the U.S. could produce every single product more efficiently than Mexico both countries could still benefit from trading. By exchanging Blue Jeans for computer programs, the Mexicans might get more computer programs than they could have produced with the same amount of labor and capital, while the Americans, by trading computer programs for Blue Jeans, might get more Blue Jeans than they could have produced with an equal amount of labor and capital. And this is known as the law of comparative advantage.

Before we go on, let us explore the belief that low paid labor necessarily means a cheap cost of production. If that were true, we would expect to find the cheapest cost of production in countries where wages are generally the lowest. A comparison of the United States and Mexico from 2006 lists the U.S. worker, on average, producing nearly $70,000 per year, while the Mexican worker, on average, is only producing about $18,000. That is between three and four times as much per worker.

However, that does not account for the grossly greater capital investment per person in the United States, which certainly accounts for most of the higher productivity. Without knowing how much of the G.D.P. went to the owners of capital (tools, buildings, machinery) we don't really know where the cost of production is cheaper. However, without any statistics, we have a good idea where land rents are higher. It's the United States.

The lower the cost of production, the higher the rental value of land. If we take the total amount that is produced within a country, and we subtract everything that is paid to all the workers; all the owners of buildings, machinery, and inventories; all those with patients and other monopolies; and taxes, what is left is the unearned income from the ownership of land. This is also true of each individual parcel of land, and a projection of this income sets the selling value of each parcel. So, in which countries do we find the highest land values, those with the lowest wages or those with the highest wages? Ironically, the cheapest cost of production is found in high wage countries like the U.S. and Japan.

If the United States has a lower cost of production, why did so many American companies buy land in Mexico and other countries? Why have they invested in 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—may have looked—like a better long-term investment. Their infrastructure is evolving with new highways and communications systems, freer markets and freer trade. In the last decade Mexico has more than doubled its productivity per worker. China is increasing productivity at a phenomenal rate.

Coming back to the American workers, what do they say to all this? They say Yes, We have heard it all before—trade is a two way street, but, this year alone, Americans bought 668 Billion dollars worth of cheap foreign products for which America didn't exporting anything in exchange. How long before the American worker has to accept the same subsistence wage that the vast majority of other people are getting all over the world. We know that they aren't giving those products away, and we know they only take money because it will buy valuable products in the future, but what about the $668 Billion dollars worth of products that aren't made by or exchanged for the products of American workers every year. What about all the factory workers that are either unemployed or working for half of what they used to make, while Americans are buying products from other countries.

Well, for the first 30 out of the last 60 years the U.S. exported more than it imported. For the last 30 years it imported more than it exported. It seems like some countries always export more than they import and visa versa. How do we explain the imbalance of trade? The first way is for people from other countries to make investments in the U.S. let's say that Japanese products went to the United States, but instead of buying American products and taking them back to Japan, they bought American assets and left them here. It could be an automobile factory or a cattle ranch or Urban Real Estate. It could be corporate stocks or Government bonds or it could include money in American banks.

You sell a product in the U.S. and you simply put the money in an American bank. Before the recession it was rumored that people in other countries had a claim on more than half of all the U.S. dollars in American banks. That could account for billions and billions of dollars worth of foreign products. You could write a check and buy anything from anywhere in the world, but only if the money buys an American product, and only if that product leaves the U.S. does it count as an Export.

The second way for imports to exceed exports is for investors from the U.S. to take profits from previous investments in other countries. If Americans invested heavily in China during past years, many of the products which come to the U.S. will simply represent profits from those previous investments. Nothing will be given in exchange; their will be no corresponding export. For example: Suppose Cell phones are made in China and sold in the U.S. The money is put in a U.S. bank. The New Yorker who previously bought stock in the cell phone company receives a check written on the U.S. bank as a dividend from the company. There is no export in the amount of the check, so it adds to the trade deficit. However, if the stock holder spends the money in a NY restaurant, in effect, cell phones were traded for dinners.

Of course the credits from one country account for a lot of what is used to buy products from other countries, so, there is no way to tell from the imports and exports between any two countries alone, whether an imbalance means there is investing or profit taking, or an imbalance that was settled with products from a 3rd country. we can see from the statistics that foreign investments in the US totaled almost $2.4 trillion while US investments in foreign countries totaled over $3.3 trillion, according to Wikipedia. That would suggest that some of the accumulated trade deficits totaling $7.75 Trillion since the1960s were profits from previous investments by Americans in other countries.

However to fully understand the effects of a “Favorable Balance of Trade” where a nation exports more than it imports, let us imagine what would happen if we stopped imports entirely. There are some exports that would continue to leave the country in spite of it. They would include products bought with American money spent by Americans living in other countries, like tourists and American military personal. It would include products purchased by people in other countries who received American money as a gift or inheritance. This would include money sent home by foreign workers, and It would include Foreign aid, which buys American products. The Marshall Plan increased American exports in the same way. However, the largest value of products that would continue to leave the country would be those which represent the returns from stocks, bonds, and real estate owned by people who live in other countries.

It can be seen that some of those exports, which result from previous investments are compensation for an increase in productivity. They yield a net gain to the national economy, and some of them represent a pure drain on our national wealth. Productive investment vs. monopoly profit. Suppose the interest on bonds which built part of the Interstate Highway system amounted to $200 billion a year, but the same part of the highway system increased the Gross Domestic Product of the United States by $400 billion a year. This would be good for the United States and the foreign investor, both. Trading imports for the construction of auto factories and steel mills could also benefit the people of both countries. However, by contrast, suppose that foreigners owned some of our mineral land. They take the raw materials or the products they exchange for them, and they send nothing back to the United States. It is a pure drain on the national assets. And the same thing applies to agricultural and urban land, including the land under an auto factory and a steel mill.

What if, instead of buying the land, it was taken with an army, we would call it Imperialism or Colonialism, but when a foreigner buys your land it's called Foreign Capital Investment, and it is generally thought to be a good thing and often sought by governments. One group of people produce, and another group of people in another country consume, and it is called an Export and a favorable balance of trade. But, If the same relationship is present within one country we don't count the imbalance of trade at all. None the less, one person produces and another person consumes, and that is the real problem we ought to be trying to fix. And neither protection or Free Trade can stop it.

Clearly, Protection can't create jobs and it can't raise wages. The number of jobs in any country is simply a matter of physics. The more land that is accessible to labor and capital, the more job opportunities are created. It is on the land we live, and from it we grow our food and make our products. You can't export a job, because you can't export the land. Shutting down a factory and refusing to sell to the highest bidder who wants to use the land, even if the offer is only a dollar, is what adds to unemployment.

Not only has the W.T.O. agreement removed all considerations of health, safety, and the environment as well as questions of morality much further from the people, but there is nothing to be gained by doing so. All impediments to trade simply diminish production. In the short run, we should simply apply to products coming into the country the same rules that apply to products produced within the country. We should unilaterally institute Free Trade, and we don't need trade agreements to do it.

However, with every advance in technology, every extension of the infra structure, and every increase in population the value of the land tends to increase; people tend to hold it as an appreciating asset. As long as it is profitable to speculate in land we will have some segment of our population unemployed. In fact, as freer trade increases production it also increases the value of land. And this increase encourages some land owners not to sell. As the population increases; as machines replace workers, more land has to come into production. So, to repeat, the degree to which the supply of land meets the need for land determines the level of employment.

Freer trade can no more reduce unemployment than the steam engine and the rail road, the automobile or the computer; it simply increases production. Are not Wages determined by the legal Min. Wage and the supply and demand for superior, better educated, higher skilled workers needed to maximize production? So, in the long run, free trade cannot create jobs, nor can it raise wages.

Only after there is free land, which can only result from an end to land speculation, can Free Trade, which does raise production, also raise wages and the return to productive capital. At present, most taxes are based on domestic trade. Labor is exchanged for money; it is taxed. Money is exchanged for a product of labor; the value of the product and or the profit which results from the transaction is taxed. By supporting the government with the rental value of land all production and trade would be free of taxation and trade restrictions and landholders would have to use their land fully or give it to someone who would -- for the rent would have to be paid, whether the land was used or not. The effect would give all people equal access to the natural opportunities with no taxes on trade or any other form of production. This Henry George called: True Free Trade. As long as the rental value of land is collected by society land will have no selling price. Therefore, all foreign investment would be productive capital, which results in mutual benefit for the people of both countries.