

# Free Trade and the Land Question in the Global Economy

A Georgist Journal forum, conducted mainly on the Land-theory e-mail list, January 13-18, 1997.

## Mike Curtis:

As Georgists, we know that trade enables us to benefit from the diversities of nature, the sub-division of labor and economies of scale. The broader the circle of trading partners, the greater the aggregate result. Most important, Georgists are for True Free Trade —

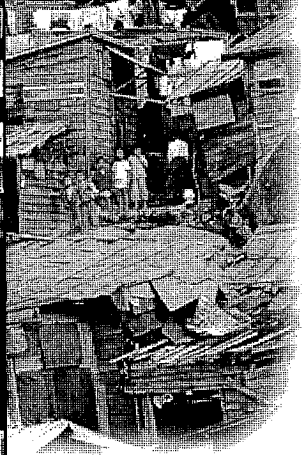
between neighbors or between nations, no taxes or impediments at all. We know that you can't export a job, only products that represent rent, wages or interest. Jobs are created by granting access to land. Unemployment is caused by land speculation — which can be stimulated in part by the economic benefits of trade. All this can be solved, of course, with the implementation of George's remedy.

But what about countries that pollute the environment, and subject their workers to unsafe and unhealthy conditions at slave wages? Should we trade freely with them?

## Lindy Davies:

Today's "free trade" debates occur in the context of economic globalization, NAFTA and GATT. Are there new forms of international predation and exploitation that are being defended under the name of Free Trade?

The very heart of Henry George's political economy is the principle we call the "moral basis of ownership": the right of producers to the wealth they have made, and the proper collection of community-created rent. The ideal (as Andelson & Dawsey put it) is "the

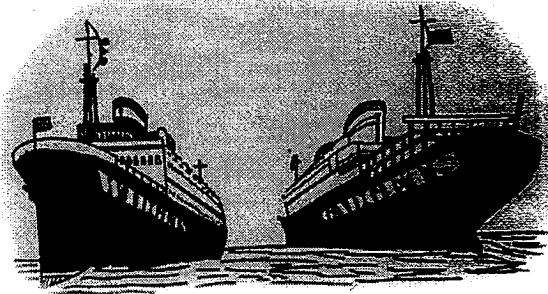


*Edited by Mike Curtis  
& Lindy Davies.*

market, purged of monopoly."

Now, it seems to me that in health, safety and environmental standards (or to be precise, in the opportunity to disregard such standards with impunity) a form of natural monopoly exists. People have a right to breathable air, drinkable water, safe working conditions and for the products they buy not to injure or poison them. (Such rights simply derive from the right to life.) When these rights are violated, "negative externalities" are created that are both inefficient and unjust. A measure that served to "internalize" such costs would be — like the single tax — both equitable and efficient.

In the current political climate, though, there is a lot of confusion about these issues. Health, safety and environmental regulations are often characterized as intrusions on the market. The left calls them necessary intrusions, or else the market will create such abuses; the right claims that the market, freed from such ill-considered intrusions, will cleanse itself.



Furthermore, under NAFTA and GATT, the conception of the sorts of activities that constitute "barriers to trade" seems to be very broad. It appears to include virtually any attempt to improve the lot of workers or consumers. Some characterize such "regulatory burdens" as an unreasonable load placed on businesses. Others point to the gigantic disparities in living standards between the industrialized West and the developing South, and the newfound ease of moving capital and information, and call NAFTA and GATT a grand giveaway to transnational corporations — huge profits at the expense of workers on both sides of the border.

If we recognize the human rights primacy of environmental, health and safety regulations, how are these rights to be secured, when "international trade" becomes a vehicle for evading them?

*Mason Gaffney:*

Be careful with the terms "Right" and "Left" — they are stereotypes that may not apply in many cases.

The question of whether environmental regulations are "intrusions" to the market is a good one for Fred Foldvary. In his

terminology, failure to "intrude" at the right place in the right way is an "intervention."

NAFTA is the product of some bad hombres, indeed. It is phony free trade.

*Dan Sullivan:*

People have been talking about the dismantling of welfare states all over the place — even, recently, in New Zealand. I've been hearing that the alternative to nationalism is not libertarian localism, but effective world government by a few transnational corporations. "We have had our eyes on the wrong ball," they tell me, "and disputed the wrong issues."

But, are big business and big government adversaries, or partners in crime. If a community takes control of its own natural resources for the benefit of its own members, then that community will more effectively resist exploitation from any source.

*Fred Foldvary:*

I would put it this way regarding the natural environment: Some types of environment, such as the air over the city, are fluid and therefore have to be treated as one entity. Other environmental aspects, such as litter, can be treated locally and individually.

Environmental damage is an invasion into our domains (persons and property), which should require compensation with a universal standard of damage assessment.

I would say that the rights to breathable air, drinkable water, safe working conditions, etc. derive, more broadly, from the right to be free from coercive harm. The moral problem goes beyond mere externality — if someone doesn't like the way I look, that's a negative externality too, to which I say, too bad. Pollution is a coercive invasion into one's domain, unlike my looks.

*Mason Gaffney:*

Fred, in this case, is taxing bad spillovers "intervening"; or is failure to tax them "intervening"?

*Fred Foldvary:*

Failure to "tax" or charge is the intervention. When government acts in a market-enhancing way, such as by charging polluters, it does not "intrude" (a synonym for "intervene"). A pollution charge is a compensation required by justice. Failure to collect this charge is the intrusion on the victims, the public. The failure to

enact and enforce rules required by justice is an intervention, yes, because it permits unjust private intervention: legalized, uncompensated pollution.

Most economists conclude that regulation is not as efficient as (when feasible) a charge directly on the pollutant, which then allows for efficient decisions at the margin, e.g. to reduce pollution rather than pay the charge, but do it in the way most efficient for that firm rather than by some government-mandated way.

Therefore, if a pollution charge is feasible, yet the government does not charge the polluter but instead regulates with some common standard that wastes resources, that is an intervention. Instead of "regulations" (politically loaded, vague), I would say "environmental safeguards and charges".

*Al Date:*

I reject the primacy of these regulations. You have no right to be safe! It is up to you to ensure your own safety, if that is your priority. Some people would rather climb rocks, or jump off bridges with bungi cords, or parachute out of airplanes. If you perceive that someone or something is causing you to be unsafe against your will, you have the civil courts. You have a right to redress, **not** a right to safety.

It is impossible to even imagine environmental regulations without an industrial economy. These are simply economic trade-offs which each society makes, usually moreso when it is already quite affluent, because the people value incremental improvements in their health/comfort more than incremental improvements to the local cost of production.

*Lindy Davies:*

Quite right. Which is why people in poorer countries become vulnerable as communication and transportation improvements make globalization easier. If the workers in those countries had viable alternatives — if they had access to the unused land in their nations — then their wages would be higher in the first place and they wouldn't be so vulnerable.

*Mason Gaffney:*

Carrying this a step further, systemic changes that raise mean incomes can also abate pollution. Al is thinking in terms of the "tail-end charlie" approach to control, i.e. keep the same process and product, then tack a scrubber or filter or precipitator on the

tail end of the production stream. A better way is to view pollution control as a lever for reforming the whole biased system.

*Al Date:*

Perhaps — but Lindy's "if" is not the case — the world is quite unfair. So, it becomes a question of whether we proceed with the industrialization, or wait for a more perfect world. The experiences of Thailand and Korea and Chile seem to indicate that it is only a short time before a middle class is created, which does the lobbying for the cleaner environment, for less corrupt government, and perhaps even for land-equity.

When people are rich enough, they can afford these regulations. But regulators must continually be reminded to perform a cost vs benefit analysis. In general, the first round of regulations are quite cost-effective, with the cost of cleaning up each increment getting geometrically higher as you approach 100%. People may choose to live in a high-cost, relatively clean environment; but they will be at an economic disadvantage to lower-cost, dirtier environments. The natural outcome of this is that more dirty production is done in the low-cost environment, leaving only the high-margin clean production to get done in the high-cost environment.

Gradually, the priorities of the people in the dirty environment will change, as they get more prosperous, and they will demand improvements. This could come in the form of local infrastructure, such as sewers and treatment plants. It could force industries to either clean themselves up, or relocate to a place where dirty industry is accepted as a temporary evil to overcome even more brutish poverty.

*Lindy Davies:*

If what you say is true, then I see no reason why it should have taken this long for the process to come about. Trends in health, safety and environment have gone down, not up, in developing countries.

*Mason Gaffney:*

Al, this became known as "The Walter Heller Fallacy" in the late 1960s. Walter was a good guy, generally, but also an unreconstructed Keynesian. His view: **first** follow me to raise the GNP; **then** you'll be rich enough to clean up the mess. Cleanliness is next to affluence, as it was put.

Today, thank goodness, many folks are working on a "Green National Product," showing how you can change the mixes in the

system and raise affluence and cleanliness together. Otherwise, as you know, what you do first usually turns out to be all you ever do, so priorities are important.

*Al Date:*

It happened in the USA, it happened in Europe. Since human nature does not change rapidly, the pattern of development in each country follows very similar paths. It is up to the people in each developing country to watch out for their own safety and environment — and do their own cost-benefit analysis.

*Mike Curtis:*

However long the development process may take, there sure are places where it has been retarded, at devastating cost to working people. What about products that are produced from the Amazon rain forest, diminishing the world's supply of oxygen, or steel produced in Eastern Europe that pollutes the entire region? What about batteries produced in the Dominican Republic, where the workers are routinely exposed to mercury? No one is forced by the factory owners to work in those jobs, although they may have no place else to work. In Haiti, wages are probably less than the cost of keeping chattel slaves. Should we trade with the Haitian people's exploiters? Haitian wages would be no higher even if no other country traded with Haiti.

However, trade increases productivity and accounts for a great deal of the economic rent, with which the land lords finance armies and prevent revolutions. Without trade, the majority would eventually rule. Is it our moral responsibility to give up the benefits we get from trade in order to further the empowerment of the majority of people in other countries?

*Ed Dodson:*

A truism associated with economics is what we often hear referred to as the "law of unforeseen consequences." Even under the best of circumstances (when we know a great deal), we cannot always predict with certainty the outcome of combinations of public policy choices.

Liberty requires the freedom of people to migrate. The earth is our birthright, equally. But, we need to pay far greater attention to the protection of the earth's narrow margin of life support. Everywhere around the globe right now native plants and animals are under attack by other plants and animals introduced without much



*"Is it any wonder," wrote Henry George in Progress and Poverty, "that to the slaveholders of the South the demand for the abolition of slavery seemed like the cant of hypocrisy?"* Drawing by Bob Clancy.

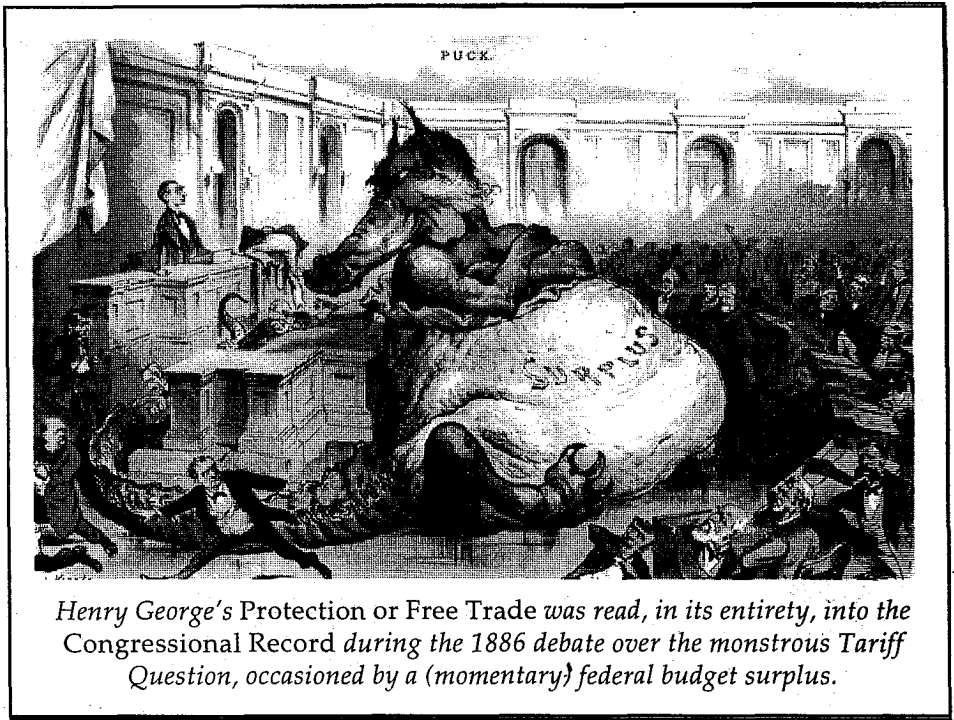
thought or accidentally by our species. We trade and travel from place to place with a barest of safeguards against the mass migration of other species into environments where they play havoc with ecosystems balanced for survival.

*Mike Curtis:*

Here's another way of looking at the immigration question. Before the boundary line between (let's say) the US and Mexico was formally drawn between two sovereign entities, the native inhabitants were free to use the land in the area. The border was not made by them, but by conquering powers — yet now the descendants of those natives, who never chose to establish the border, are not allowed to cross it. What are the parameters of national sovereignty here?

*Lindy Davies:*

As I understand our discussion so far, one compelling question here is: what happens when free trade is aggressively promoted in



*Henry George's Protection or Free Trade was read, in its entirety, into the Congressional Record during the 1886 debate over the monstrous Tariff Question, occasioned by a (momentary) federal budget surplus.*

countries where wages and health standards are very low, and workers are not allowed to move to places with better opportunities. As Mike pointed out, in countries where a very small minority often controls nearly all the land and wealth, the benefits of trade simply serve to provide those on top with more efficient means of oppression.

Mason said that NAFTA amounts to "phony free trade". Can we describe the sort of free trade agreement that Georgists ought to support?

**Fred Foldvary:**

I think these would be the basic elements:

1. The basic policy is free trade: no tariffs, quotas, or excessive regulations on imports, and no subsidies to exports.

2a. There would be a global environmental policy, whereby polluters and other destroyers of the environment pay a charge proportional to the perceived damage.

2b. If there is no global environmental policy, then a partial equalizing of environmental costs can be attempted by an import charge that would be the same as if the exporting country had adopted pollution charges; this might differ among industries.

Other policy options includes diplomatic pressure, the World Court, and warning labels on the imported products.

3. If the exports are perceived to be made from exploited labor such as political prisoners, slavery, or abusive child labor, then the policy response can be a combination of:

- a) required labels informing consumers of such
- b) an import charge to bring the price up to the non-exploitative equivalent
- c) prohibition of the goods in clear and extreme cases.

However, the mere fact of low-paid labor and poor conditions by themselves should not warrant prohibitions or import charges. Trade policy by itself cannot solve all injustices, and is subject to manipulation. Also, until justice is fully achieved domestically, attempt to "correct" injustice abroad can be seen as hypocritical. Note also that sometimes low wages are better than no wages.

4. If the products are perceived to involve extreme cruelty to animals, then the products should require labels to inform consumers, with a possible charge and, in extreme cases, prohibition.

5. Institutional safeguards need to be enacted for corrective tariffs to avoid the capture of the process by special interests seeking protection or zealots pushing the policy to an unreasonable extreme.

6. If in doubt, don't restrict.

7. Immigration is a separate issue from free trade in goods. A democratic country can be considered a "cooperative". It is up to the members of a co-op whether they wish to admit new members. There is no unique immigration policy required by justice. (I personally favor unrestricted immigration of those who are healthy and have not committed violent crimes. But I don't claim this is a Georgist position.)

*Lindy Davies:*

But since (as Mike pointed out) national boundaries are based on force and conquest, what is the moral basis for these "co-ops"?

Nowadays we have widespread movement of capital across national boundaries. This doesn't raise anybody's wages, so it must have the effect (as others have said) of increasing rent. Capital can migrate; labor cannot. Surely this can't be what we mean by "True Free Trade"...?

I suspect that the situation is qualitatively different now (than in, say, George's day, or perhaps in pre NAFTA/GATT days) because it is so easy for capital to cross borders, and because corporate interests have gained the upper hand over nations' interests.

**Fred Foldvary:**

When we talk about capital "migrating," we have to distinguish financial from real capital. Financial capital can migrate quickly, but a lot of capital goods (buildings, big machines) are rather stuck in place.

Actually back in the days of the gold standard, there was a huge amount of international financial capital movement. There was no need to move the physical gold, just the labels signifying ownership. This all broke down after WWI. We are now globalizing back to the conditions of the late 1800s, George's day! The technology is different, but the substance of the situation isn't so different. My students tell me a main revelation in reading *Protection or Free Trade* is how little things have really changed.

Corporate interests have the upper hand? Well, when didn't they? We can go back to the 1700s or 1600s mercantilism and see the big corporations back then being subsidized and protected, and steering national policy: the East Indian companies, for example.

If there is global geoism, then national borders don't matter. In today's world, working for geoism is the most important way to remedy the privileges from past conquests.

**Dan Sullivan:**

As Mason Gaffney's own studies of agribusiness have shown, multinationals are not more resource efficient than small businesses are. Wherever tax policy puts a premium on resource efficiency, multinationals will be at a competitive disadvantage.

**Lindy Davies:**

One scenario I've been proposing to students for a while now is my two-point program of economic health for developing countries. They should:

1) Immediately institute the full Single Tax: collect the full rent of land for public revenue and abolish all other taxes.

All the tendencies of the present are not merely to the concentraion, but to the perpetuation of great fortunes.... The gambling of the stock exchange is more dangerous to short than long purses. Stocks, bonds, mortgages, safe-deposit and trust companies aid the rentention of large wealth, and all modern agencies enlarge the sphere of its successful employment. — Henry George, *Social Problems*

2) Refuse to pay all debts owed to foreign banks.

Too radical, you say? Perhaps...but not because it's unjust. Those debts were not really contracted in the name of the working people of those countries and in most cases were never invested in capital formation but merely squandered on consumption (which includes military spending to protect autocratic regimes). But IMF-mandated "austerity programs" require just those working people to shoulder the impossible burden of repayment!

The most common response from students to this proposal is one of resignation: "Yeah, but the US would invade any country that did that!" And I can't really see any basis for denying that.

**Fred Foldvary:**

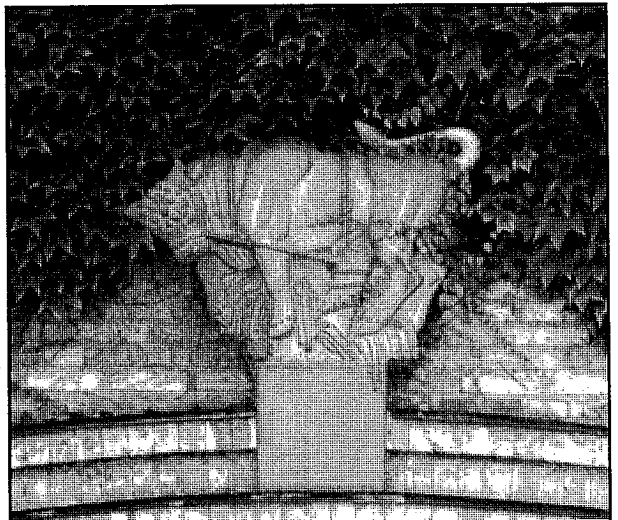
Right on! The country would not get any more IMF loans, but so what? The rent will fund development investments.

**Mason Gaffney:**

Well, the US might not invade. After all, it is a major debtor nation — it might join 'em and repudiate its debts. Otherwise, every U.S. taxpayer born today is born into debt slavery, enforceable by jail.

**Lindy Davies:**

By the way, Fred: One way in which national borders would still matter under global geoism is when nations must share some natural resource, like a river (or the air). In your scenario of "global



*"This bull, a very type of massive strength, who, because he has not wit enough to see how he might be set free," wrote Henry George in the introduction to Protection or Free Trade," ...seems to me no unfit emblem of the working masses." It is enshrined over the entrance of the Agricultural College in Odense, Denmark. (photo by George Collins)*

geoism", you justify the right of a co-op to secure its own boundaries on the basis of its respecting the human rights of its members. But what gives that co-op, corporately, any more right to a certain piece of territory than any other co-op? Should not a nation compensate the other citizens of the world for the value of the world's territory that it monopolizes?

*Mason Gaffney:*

Worldwide rent-sharing is pretty ambitious at this stage. I suggest we need to make it work at the national level before we try that. I am leery of unworkable dreams, not because dreaming is bad or unproductive, but because they may divert us from doing what is doable.

*Dan Sullivan:*

Ultimately, I would like to see land rent shared globally, but there is no point in sharing between nations if the nations themselves do not share among their people. Once a community has instituted a moral relationship with its citizens, it acquires the authority to demand a moral relationship between communities. Until that time, there is no obligation to share resources with that community. Surely the US has more resources than say, the Congo, but the Congo is unspeakably corrupt internally, and the notion of distributing rent to the Congo and seeing that rent monopolized by the few instead of shared by all citizens has no appeal to me whatsoever.

It's been said that foreign aid is "Taxing poor people in rich countries to benefit rich people in poor countries." We can control who we tax, perhaps, but we cannot control who benefits unless we simply refuse to share rent internationally with countries that do not share their own rent internally.

*Fred Foldvary:*

In global geoism — as Nic Tideman has explained — the rents due to nature would be collected. My point was only that locally generated rents can and should be collected locally. Rents due to nature should be shared by a broader community.

In working for reform, it is indeed practical to work first on what is possible to change. But we can also keep the total grand picture in mind, both as an ultimate goal and as inspiration. Mason Gaffney, in a moving speech, urged us to think big. Also, we have global environmental problems, and some work along these lines

may be productive. The Law of the Sea, etc., show that the global resource issue is not merely dreaming. Note also that with Antarctica there is a global agreement to share that land and put aside national claims, and the issue of land claims on the moon and planets may come up, so we should not ignore the global, yea the universal, front. Work on all fronts is needed.

**Mason Gaffney:**

Well said, Fred! I agree.

However: I suggest true free trade begins at home. If you tax domestic exchange, but exempt international exchange, you are subsidizing exports. Thus, the world system is biased toward international trade.

Likewise, the U.S. domestic system lets states tax intrastate sales, but not interstate ones, creating the obvious mail-order bias.

Likewise, our transportation systems have a huge interstate bias, linking Seattle and Minneapolis while neglecting the little local road networks in between.

They also have an anti-urban bias, as states pay for interurban highways that become strip developments, while local governments scrounge for street-repair funds.

Domestic free trade has a lot of angles, other than the obvious ones I started with. I suggest we begin here, and treat world trade as a tail on the dog. The powers that be, however, are doing the opposite. Let's not fall for it, just because they raise the slogan of "free trade."

**an Sullivan:**

If we had established a real sense of moral integrity in at least a few local governments, I would be inclined to take on something bigger, but even Pittsburgh is too big a knot to untangle.

*...that violation of natural rights which imposes tariff duties is inseparably linked with that violation of natural rights which compels the masses to pay tribute for the privilege of living. The one cannot be abolished without the other. And a republic wherein the free-trade principle was thus carried to its conclusion, wherein the equal and inalienable rights of men were thus acknowledged, would indeed be as a city set on a hill...*

*Thus would free trade unite what a century ago protectionism severed, and a federation of the nations of English speech — the world-tongue of the future — take the first step to a federation of mankind.*

*— Henry George, Protection or Free Trade*

By custom, economists speak of land, labor, and capital as the three "factors of production." Whatever a business wants to sell, it needs some combination of land, labor, and capital. In this abstract but useful framework, labor refers to people. Capital refers to physical objects created by people, such as buildings, tools, and machinery. And land refers, somewhat opaquely, to all the gifts of nature — everything that is not created by people. Land includes not only tracts of earth and natural resource commodities but also basic ecosystem functions, such as the cycles of water, nutrients, and energy. These goods are provided by nonhuman forces, free of charge. The mispricing and consequent misuse of these gifts constitutes much environmental harm.

Taxes on the gifts of nature raise the price of using them, which tells people to conserve these gifts. Taxes on labor and capital tell businesses and households to scrimp on workers and tools — in other words, to practice unemployment and underinvestment. A reasonable tax policy would tax the gifts of nature first and only tax labor and capital as a last resort.

Alan Durning, "The Changing Worldview," from *Worldwatch Magazine*, January, 1997. His article is excerpted from the book *This Place on Earth: Home and the Practice of Permanence* (Sasquatch Books, Seattle, Washington, USA). Submitted by Mason Gaffney.

*Mike Curtis:*

Foreign ownership of capital may or may not be a big influence (it seems to me that a very large amount of factory machines and equipment in use today were made in other countries). And, Americans own a lot of foreign stocks. But, I doubt that all that is very important. The answer here, as in so many other cases, can be found in fundamental economics. When foreign capital comes into a country, it increases productivity; when that starts to stop, no more capital will be imported.

The national wealth is drained by foreign ownership of land and other monopolies. However, it makes no difference whether the landowner lives in the same country as the people he exploits. The relationship is the same — the workers produce, and the landowners consume.

The only thing that will raise wages and interest beyond the bare competitive minimum is a tax on the potential rent (at whatever jurisdictional level, whether local, national or global), which discourages land speculation. Only then will free trade (or any increase in production, or reduction of taxes) benefit the workers and capital owners.

GJ