

Hollow thinking to

THE UNITED STATES and Canada enjoy close economic and cultural ties and are the world's two largest trading partners. A trade controversy, therefore, such as the one caused by a newly instituted U.S. tariff on shingles from Canada, is of no small importance.

The "Shakes and Shingles" controversy (a shake is a type of shingle), as it has been termed, began in May when President Reagan placed a 35% tariff on cedar shingles imported from Canada. Hardest hit by the sanction was British Columbia, the western-most province, which is heavily dependent on its lumber industry. More than 60,000 jobs depend on the \$4 billion softwood export market.

Since more than 80% of Canada's one-quarter of a billion dollar economy goes in exports to

the United States, trade restrictions of this sort have a profound effect not only on the economy but on the trade relationship between the two countries.

Canadian Prime Minister

● CANADIAN timber took one third of the American market in 1985, up from about a quarter in the late 1970s. These imports helped to keep house construction prices low. Now, in a bid to reduce competition, the American forest-products industry is attempting to secure a ruling that Canada subsidises its timber exports.

● A TRADE WAR has broken out between the two countries over wood shingles (used to roof houses), worth just \$240m in the two countries combined. This reverses the trend towards a liberalisation of trade between the North American neighbours. STAN RUBENSTEIN reports from New York.

Brian Mulrone responded to the tariff with surprise, calling the President's action "bizarre". In a letter to the President, Mulrone stated that the tariff was "pure protectionism" and warned that Canada might be "forced to con-

TIMBER RENTAL SCANDAL

By Peter Poole

A FINANCIAL scandal involving publicly-owned rental income has been exposed by Bob Williams, a Social Democrat in the British Columbia legislature in Canada. He calculates that the State government is failing to collect about \$2,000m in rental income from companies that are exploiting natural resources on public land.

And if urban rents were collected, income tax — now running at \$2,500m — could be wiped out completely, says Mr. Williams, who represents a Vancouver constituency.

The hard-hitting politician disclosed the scandal at a conference organised by the International Union for Land Value Taxation and Free Trade. Timber companies were getting away with more than \$500m in rental income that would be paid into the public purse if the industry was subject to a system of open bidding, said Mr. Williams. That sum was the measure of the subsidy which was being given to timber companies.

But in addition, Mr. Williams, 53, told *Land and Liberty* that other natural resource users were getting away with rental income that ought to be taxed for the public benefit:

● \$600m for water; ● \$480m for coal; ● \$400-500m for petroleum and gas.

This is the rental income that legitimately ought to be flowing into the State's exchequer, says Mr. Williams, who pointed out that 94% of BC land was in the public domain.

"Rents are generally not collected throughout the resource spectrum," said Mr. Williams. "These rents are leaked out to foreign interests. Surpluses are not ploughed back into the local economy. Regional development is therefore retarded. Historically, land for timber was allocated on an open bidding system. This was dramatically changed in the 1950s, when cutting rights were allocated to those in the business. Effectively, no new people have been admitted to the industry for about 30 years."

This created "huge no-bid enclaves controlled by individual companies." As a result, the BC timber industry had become inefficient. Two generations of entrepreneurs had been lost: the industry was now run by people who were essentially paper shufflers and controllers of privilege, who milk the Crown in every conceivable way, using every angle and subterfuge imaginable." Mr. Williams, who intends to document his complaints in the



● Bob Williams. A city planner by training and a former minister of natural resources in the BC legislature, he represents Vancouver East, where he has two pubs.

legislature, added: "It is a system of absentee, monopoly control."

In the few cases where timber rights were made available for open bidding, the rental income flowing to the public purse soared — "rent is four times higher in those cases where there is limited bidding".

As a measure of how BC timber prices are kept artificially low, Mr. Williams identified a situation in which it was possible to buy huge fee simple acreage, cut the logs, sail the logs 30 miles downriver to Idaho (where prices are three to four times higher) and make enough money to pay for the land!

Mr. Williams has no doubt that rent leakage was giving BC producers (who have access to half of Canada's forests) a price advantage over U.S. producers. "Washington has noticed this," said Mr. Williams, pointing to President Reagan's decision to impose a tariff on BC shakes and shingles exports. A trade war that threatened BC timber exports would have "the worst impact on us since the great depression of the 1930s."

"It is a classic Georgist story," went on Mr. Williams, referring to the economic philosophy of American economist Henry George. "The non-collection of rents and massive subsidies have produced quasi-monopoly control. This has led to inefficiency, a curb on the creation of wealth and unfair competition with our major trading partners. We now also face the prospect of tariffs in which the Americans will collect the rent that we foolishly did not collect!"

Mr. Williams added that if the Social Democrats were returned to power, they would "implement more of a market system" — even though they were socialists — in which the rent of publicly-owned land would be collected for the community.

blame in Shingles tariff storm

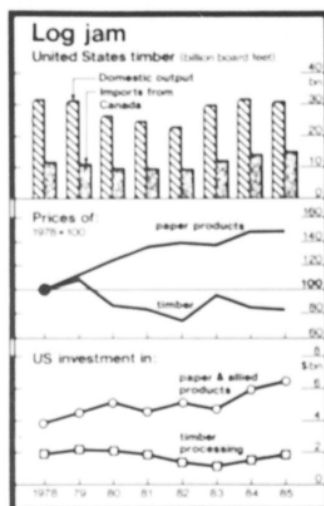
sider an appropriate response". Following this to its worst conclusion, one must consider the possibility of trade war.

The pattern of action and retribution between the two countries, though curbed, is still apparent. The U.S. tariff on shingles was followed when Canada imposed tariffs on novels, computer parts and foods such as oatmeal — American-made products which find a strong market in Canada. The Canadians have since placed a tariff on oil-well pipe and casing imports.

It is difficult not to answer insult with insult. Tariffs threaten not only the economic well-being of the specific industries which may lose business, but the spirit of trust and goodwill which is necessary to free trade.

The "Shakes and Shingles" row comes, ironically, during the midst of trade negotiations and renewed feelings of goodwill between the U.S. and Canada. Both Mr. Mulroney and President Reagan support the ideas of "free trade and fair trade." Negotiations have focused on a comprehensive free trade agreement which should help ease trade barriers between the countries where \$116 billion worth of goods and services crossed the borders this past year.

Speaking out against a trade bill in the House which would restrict rather than foster free trade, President Reagan said: "This anti-trade bill isn't protectionism, it's destructionism. We've created nearly 10m new jobs since the recovery began, more jobs in the last decade than Europe and Japan combined ... The Commerce Department has



Sources: Random Lengths Publications; Council of forest industries of British Columbia; Department of Commerce

estimated that the jobs of 5.5m American workers are dependent on exports."

A strong testimony to the benefits of free trade. Why, then, the tariff on shingles?

THE INTERNATIONAL Trade Commission, after a six-month investigation, determined that imports from Canada were seriously harming the shingles and shakes industry in the U.S. Unemployment in some of the northwestern states was attributed to a failing softwood industry there.

No matter what the circumstances, imports entering a market are bought at the expense of the domestic market. So it is with shakes and shingles, steel, electronic equipment, automobiles, and many other products. Of course the trade policy implemented by the U.S., be it protectionist or free trade, is meant to take care of its own. But isn't the export industry itself

placed in danger by protective trade measures?

The tariff issue is not a simple one; neither is the larger issue of protectionism an easy thing to explore and understand. Henry George uses the example of the iron steamship to illustrate one method for approaching a problem in economics.

As a child George went with a friend to see the first iron steamship in the area. His friend said: "I see how it is. She's all lined with wood; that's the reason she floats."

George, not satisfied, "set to work trying mental experiments. If it was the wood inside of her that made her float, then the more wood the higher she would float; and, mentally I loaded her up with wood ... I at once saw that, instead of floating higher, she would sink deeper. Then I mentally took all the wood out of her ... and saw that thus lightened she would float higher still. Then, in imagination, I jammed a hole in her, and saw that the water would run in and she would sink ..."

By thinking this problem through, even a small boy saw that the ship stayed afloat because the "hollowness" caused an appropriate displacement of water. This type of logic pertains to the Shakes and Shingles issue, as well as to any problem in economics. It is indeed a difficult decision to make between a proven, down-the-line free and fair trade policy, and a chance to help one floundering home industry.

But it is also important to consider the nature of the "appropriate response" of any country that considers itself attacked by protectionist measures. There is a fine line between trade agreement and trade war. We must examine the consequences of our actions before acting.