



Sunday, September 27, 2009

BIZNETDAILY COMMENTARY

Why conservatives don't endorse free trade

Posted: July 30, 2004
1:00 am Eastern

Business Reform

Editor's note: Business Reform Magazine is your exclusive source for real biblical answers to real business problems. www.businessreform.com

Back in 1976, I was Congressman Ron Paul's research assistant. I had contacts with other Congressional staffers on Capitol Hill. One evening, I attended an informal get-together in the Georgetown area. The host was a retired diplomat whose daughter worked in Senator Jesse Helms' office. I had been invited by Howard Segermark, also a Helms staffer.

One moment in the evening's chit-chat has stuck in my mind ever since. In discussing free trade, one man, whom I had never met before, expressed his view of free trade. "Free trade is when you stick a .45 automatic to the temple of some Asian and tell him, 'Gook, we're going to trade . . . on my terms.'"

I dismissed him as an ideological aberration. I don't think he was on any Congressional staff. But, over the years, I have come to the conclusion that both conservatives and liberals share his view of free trade.

The various multinational trade agreements that have been signed by the United States government, most notably those authorizing the control of the terms of trade by the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA), are essentially forced-trade agreements. They require private companies in each nation to meet production standards that are imposed by international bureaucracies. Reductions in tariffs and import quotas are accompanied by labor restrictions, pollution standards, and large printed volumes of other impositions. These restrict the operation of free markets. What appear to be reductions in government control (sales taxes and import limits) are accompanied by increases in government control (production codes). "The large print giveth, and the fine print taketh away."

All participating nations are required by international law to interfere with voluntary transactions within each nation, as well as voluntary transactions across national borders. Officers of these nations must abide by the legal interpretations made by unelected international bureaucrats.

BORDERS AND TRADE

There is a border down the middle of your street. Cars travel in one direction on one side of that border. They travel in the opposite direction on the other side. Laws govern the movement of cars on each side of the border, including that most powerful of laws, the law of inertia.

We are taught from an early age to respect these laws. "Don't run into the street," we are told from the time we can walk. "Look both ways before crossing" is another.

The dividing border, which is usually marked by painted lines on asphalt, has nothing directly to do with trade or other communications between people living on each side of the street. If you want to offer to mow the lawn of someone who lives across the street, what does that have to do with highway safety laws governing drivers? Assuming that you don't push your lawn mower in front of a passing car on either side of the dividing line, what business is it of your next-door neighbor or the non-mower's next-door neighbor?

The emotional power of a border can be very great. The border may divide two cultures, such as the border between Mexico and the United States does, or the border between India and Pakistan. But a person on one side of a culture-dividing border still may see an advantage in exchanging property or services with a person "just across the street."

If a person on one side of a national border is allowed to cross the street and buy from the person on the other side, he knows that he must abide by the laws of the jurisdiction governing the other person. He takes this factor into consideration, or should if he wants to avoid legal problems. He counts the cost of compliance on the other side of the street. But for as long as he stays on his side of the border, he should not worry about what the laws are on the other side of the street. They do not apply to him.

The problem comes when his political representatives or their agents decide to negotiate in his name with the politicians across the border. They seek to change the terms of trade. He will soon learn that the politicians on both sides of the border respond, not to consumers as voters, but to producers as campaign donors and bribers. Producers' economic interests are highly focused. Consumers' economic interests are not. Producers are skilled in the art of political lobbying. Consumers are not.

The governments on both sides of the border hold the equivalent of that .45 automatic. Consumers do not. When an official holding a .45 sets the terms of trade, we "gooks" must either comply or face the consequences.

A BORDER IS A BORDER IS A BORDER

Free trade begins with two people, each of whom sees the possibility of improving his circumstances by exchanging the legal ownership of assets with the other. Each wants to own what the other possesses. Each is willing to surrender something of value in order to obtain legal possession of what the other person legally possesses.

The decision to buy and sell – one man's "buy" is the other man's "sell" – is made by the parties involved. Each assesses the value of that which he seeks to obtain and compares it to whatever he is willing to surrender.

Next-door neighbors on one side of the street go through the same mental processes of value-assessment that across-the-street neighbors do. There is nothing about the line down the middle of the street that changes the mutual evaluation processes.

But, say critics of free trade, a barbed wire border is different from a highway dividing line. This is true, physically speaking. Barbed wire can hurt you. But why does the composition of the dividing line make the process of buying and selling fundamentally different?

Both borders mark legal differences. A highway dividing line marks the separation of cars travelling in opposite directions. A barbed wire border between nations imposes restrictions on the flow of people. But why should the flow of goods across a national border be different from the flow of goods across a highway border?

ELECTRONS AND MOLECULES

Get on the internet. Type an address. You cannot be sure if the owner of the Web site lives in your town, your nation, or your hemisphere. A .com suffix tells you nothing about where the seller lives. Spelling on the Web page may reveal the background of the site's owner, but the Web host server could be anywhere.

There are no borders on the Internet. There are only addresses. A person can buy a report posted on a Web site and never know where the report writer lives, or where the server is, or where the seller's bank is. He downloads the report onto his hard disk, never knowing where the original electrons are stored. He does not care.

Politicians care. Politicians running Government A may not want its citizens to be able to obtain information from sites located in unfriendly countries, meaning political entities run by rival politicians. There are legal borders separating political entities that the Internet does not acknowledge. But politicians on both sides of these invisible borders acknowledge differences that the Internet ignores.

Why should a politician in Nation A be granted the right to control the buying of electrons from people living in Nation B? What factors, morally or logically, authorize politicians in Nation A to restrict the purchase or sale of electrons across the nation's

border, when those same electrons may be legally exchanged by people who live inside Nation A? What does it matter where the seller's site server is, or where I live, or where the seller lives, or what bank the seller uses?

It matters to politicians. It matters to bureaucrats who are employed by the WTO. But since they can do very little about the flow of electrons on the Internet, they have kept in the background.

When it comes to molecules rather than electrons, government officials do not stay in the background. When commerce moves from electrons to atoms, and especially to entire molecules, politicians and their agents insist on controlling the terms of trade. Violate these terms, and you risk facing a group of molecules in the shape of a .45 automatic.

THE PRODUCTION OF MOLECULES

Molecules impose burdens on the environment, we are told – burdens not produced by electrons. So, governments impose restrictions on the production of certain molecules.

Businesses in Nation A therefore face higher costs of production for certain molecules than businesses in Nation B face. Molecule producers in Nation A have higher costs of production. But if they raise prices, they lose business if consumers in Nation A are allowed to purchase similar products made in Nation B, where production costs are lower, and therefore sales prices are lower.

So, when a consumer in Nation A seeks to purchase a product made in Nation B because the selling price is lower than a product made in Nation A, producers in Nation A complain to the government. "Nation B's producers are taking advantage of you politicians, who have the best interests of our great nation at heart. They are selling goods at lower prices. Our people are being encouraged to harm the environment of Nation B, whose politicians are not far-sighted, the way you are. You must put a stop to this, for the sake of the world's environment. You must defend Planet Earth. You must impose restrictions on the importation of goods produced in Nation B or any nation that does not enforce environmental laws. After all, we need a level playing field."

This level playing field may be level on one side of the border, but it is elevated compared to playing fields on the other side of the border. So, the producers on the high side of the border ask their government to dump enough dirt at the border so that producers on the other side must spend a lot of money to climb up this added layer of dirt.

Consumer A is now hit twice. He pays more for goods produced in his nation, and he pays more for goods produced in other nations. He is forced to accept the more expensive playing field because of the mountain of dirt – judicial barriers – at the border.

Politicians can do this because molecules are less expensive for bureaucrats to monitor and control than electrons are.

A GUN AT MY HEAD

The fellow at that party had the idea that he, as an American, could put a .45 at the head of the Asian and get what he wanted at a price he was willing to pay. He forgot the obvious: a U.S. government trade official has a gun at his head, not the Asian's head. The Asian is over there on his side of the border. The American is over here.

Of course, there will also be an Asian bureaucrat with a gun at the Asian's head.

On each side of the border is an official who has a gun. The American bureaucrat has a gun at the American's head, and the Asian bureaucrat has a gun at the Asian's head.

Occasionally, the American bureaucrat and the Asian bureaucrat shoot at each other, which is to say, they point a gun at their own people and tell them to get into uniform and go shoot the other people on the other side. World War II, the Korean War, and the Vietnam War are examples.

The problem with bureaucrats with guns is that they use them mainly on their own citizens. These citizens stand at the border and make offers to people on the other side. But there are bureaucrats on both sides of the border who point guns at their own people and tell them, "You can't make that offer" and "You can't accept that offer."

CONCLUSION

The problem with conservatives who favor restrictions on cross-border trade is that they do not seem to recognize at whose head the .45 is pointed.

Gary North is the author of Mises on Money. Visit <http://www.freebooks.com>. For a free subscription to Gary North's newsletter on gold, [click here](#).