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## TARIFFS: THE PREFERRED TAX OF MASOCHISTS

by Gary North

If I were to come to you and say, "What this country needs is higher taxes in order to make us all rich," you would correctly conclude that I had lost my mind or my principles. But if I were to come to you and say, "What this country needs is higher tariffs to make us all rich," a considerable number of you would say, "You know, he's absolutely right."

What you need to understand is that these two statements are the same, economically speaking: "What this country needs is higher taxes to make us rich" and "What this country needs is higher tariffs to make us rich."

Why are they the same? Because a tariff is a tax. This is the "dirty little secret" that every promoter of higher tariffs never tells you. It is the secret revealed by economic analysis ever since Adam Smith's *Wealth of Nations* (1776), which is why those people who publicly promote tariffs are very seldom trained economists, and why those few who are economists are devoted followers of John Maynard Keynes and hostile to the idea of economic freedom.

### Something for Nothing?

The fundamental principle of economics is the fact of scarcity: "At zero price, there will be greater demand for most goods than there is supply of these goods." This means that whenever we hear someone offer a scheme that promises us something for nothing, especially a scheme enforced by the State, we should be on the alert. "Put your hand upon your wallet and your back against the wall!"

The defenders of tariffs insist that tariffs are the one remarkable exception to the logic of economics. We can raise tariffs (get the government to collect more sales taxes on imported goods), and in doing so, stimulate the economy and increase our nation's per capita wealth. Let's think about this for a moment. Higher sales taxes are beneficial to the economy? That is what the tariff advocate is saying, though he never says it this way. (If he said it this way, nobody would believe him.)

This is Keynesianism with a vengeance: tax and tax, spend and spend. This is the tax collectors' siren song. "We'll take your money, and you'll be so much better off!" This is the economics of the New Deal: **tax ourselves rich**. Yet conservatives buy this argument almost every time when the word "tariff" is substituted for "tax," unless they have read and have also understood Henry Hazlitt's *Economics in One Lesson* or some similar free market economics book. They instinctively have faith in **word magic**: substitute a different word, and the laws of economics no longer apply.

The argument for tariffs as wealth-creating devices is the equivalent of the logic of the perpetual motion machine. It is the logic of something for nothing. Only a few pathetic, naive, and misinformed souls ever get taken in by the pro-

fessional hustlers who sell them on the idea of investing in some perpetual motion machine project. Unfortunately, millions upon millions of voters are quite willing to open their wallets to the Federal government whenever the politicians promise endless wealth for all Americans through higher tariffs.

When they vote for this compulsory wealth-redistribution scheme, voters (as consumers) get exactly what they deserve: poorer. The inefficient domestic manufacturers who temporarily prosper under tariff protection—**wealth redistribution by threat of government violence**—get what they in no sense deserve: richer.

If the government imposes tariffs, it collects the money for its own purposes, and those few domestic manufacturers that had faced stiff foreign competition can prosper a while longer. Import quotas are "tax-less tariffs," but they have the same effect on consumers that tariffs do: to increase domestic prices by **forcibly reducing the available supply of consumer goods**. Both quotas and tariffs reduce the number of goods that producers are able to offer for sale at prices that consumers are willing to pay.

Yet voters continually cheer when the government imposes tariffs and quotas, despite the fact that such laws are **laws against their freedom and their pocketbooks**. Why? Because they desperately want to believe in the economics of perpetual motion. They truly believe in something for nothing, what Prof. Ludwig von Mises called the economics of **stones into bread**. They resent the economic restraints imposed on them by creation, and they also resent the intellectual restraints imposed by economic thought. **They hate economics.**

You would be hard-pressed to find any economist after Adam Smith who has been a defender of tariffs, and none in this century, except John Maynard Keynes (after 1929). But you can find legions of non-economists who praise the increase in per capita wealth that supposedly comes from the coercive wealth-redistribution effects of tariffs and import quotas.

### Freedom of Choice

To the extent that economics since Adam Smith's *Wealth of Nations* has been generally rational, it teaches us that **when the State uses coercion to restrict voluntary private transactions, most people are made worse off**. The only winners are those whose businesses are implicitly subsidized by the State's restraint of trade. **To argue any other way is to return to the State-promoting economics of mercantilism.** This is why Keynes became a promoter of tariffs; his economics is the economics of mercantilism.

The Bible teaches that every man is to work out his own

salvation (or damnation) with fear and trembling (Phil. 2:12). **People are to be left free to do anything they choose unless what they choose to do is immoral.** Trading with each other is not immoral, unless the item or service traded is immoral. Trade should therefore be either completely free or completely prohibited; tariffs and quotas have no role to play in improving economic morality.

You can make a weak case for tariffs as tax devices, but a tariff is a **selective** sales tax, and such selectivity is by nature discriminatory against some groups, while it implicitly subsidizes the groups that are not taxed. So the subsidized (untaxed) group (a few producers) has an economic incentive to promote this form of tax, while the bulk of the people who pay the tax (consumers) are not aware that it is a tax. They will not fight it, and as **victims of false economic reasoning** offered by non-economists, Keynesian statisticians, journalists, and well-paid public relations hirelings of various protected industries, they masochistically promote the tariff tax, too. They enthusiastically vote for politicians who impose these discriminatory sales taxes on them, all the while cheering themselves up with the thought that they are forcing other less "public spirited" U.S. citizens to "buy American."

Bear in mind that only about 15 per cent of the American economy is trade-related. We are therefore talking about a small minority of domestic producers. But they love to tell their story as if they were the representatives of the national interest.

### Buy American!<sup>1</sup>

The basic theme that the beneficiaries of this involuntary wealth transfer (read: **theft by selective taxation**) use so effectively to promote their cause in the United States is the slogan, "Buy American." To make the issue clearer, let us consider the logic of this phrase. Understand, **cause-and-effect logic is what the defenders of tariffs never give you.**

"Americans have to pull together," we are told. "They ought to help each other. If they don't stop buying those foreign imports, they're going to kill the U.S. economy." In other words, "What's good for General Motors is good for America."

But Americans have this distressing tendency—one shared by buyers in every nation in the world—to buy what they regard as **bargains**, irrespective of "Made in U.S.A." stickers. When Americans "buy American," they have in mind something very specific: "Buying what **this** American—yours truly—chooses to buy." They seldom worry about the supposed wisdom (let alone the supposed moral excellence) of buying only what another American chooses to manufacture.

Does this indicate a lack of patriotism? Did all those people who bought Volkswagens in the 1950's deal the national interest a body blow? After all, they could have bought De Sotos, or Studebakers, or Packards. Why, they could even have bought Hudsons. But they didn't.

Are we willing to modify ex-GM President Charles Wilson's famous phrase? Are we willing to declare, retroactively, the "What's good for Hudson is good for America"? Would anyone buy that bumper sticker? I doubt it.

I am not really arguing that Volkswagen bankrupted Hudson. Ford, Chrysler, and General Motors bankrupted Hudson. But in the 1970's, foreign imports put the squeeze on "the Big Three" auto manufacturers. Imports began to pressure the formerly victorious "bankruptors." Howls of outrage started coming from the former winners in the competition for the consumer's dollar. "Save us from these merciless competitors!" The shoe was now on the other foot, and from the point of view of economic analysis, they didn't have a leg to stand on.

For over two decades, 1950-1974, foreign auto manufacturers had been selling cars that burned less gasoline. Americans in the 1950's didn't pay much attention to them.

The gas-guzzler was a national institution, a 75-miles-per-hour, 14-miles-per-gallon temple to the promise of unlimited growth and 4 per cent GNP increases, compounded annually, forever.

Today, some people argue that the gas-guzzler is innately evil, a destroyer of energy supplies. But Americans did not need stern lectures from Volvo-driving sociology professors to teach them about the evils of the gas-guzzler after 1974. They remembered this lesson clearly enough every time they drove away from a gasoline pump. They started buying smaller cars.

### Consumers Change Their Minds

What wiped out Detroit's profits overnight twice in the 1970's was a pair of overnight shifts in car-buying preferences on the part of American consumers, in 1974 and 1979. The presence of foreign imports allowed them to exercise their preferences. Millions of car buyers had previously been unable to make up their minds about whether to give up the long-preferred gas-guzzler. They had vacillated. The gasoline lines and high prices of 1974 and again in 1979 convinced them. They didn't need Federally mandated mileage standards; they didn't need *Washington Post* editorials about the necessity of national conservation (by means of Federally funded rapid transit systems); all they needed was a quick look at their monthly charges from their oil companies.

So millions of us changed our minds, almost overnight. **This is what freedom is all about.** Foreign auto manufacturers were close at hand to sell the products we Americans now demanded. Americans had a choice. In fact, we had several choices. First, keep the gas-guzzler, or buy another one, and wind up subsidizing OPEC. Second, buy a foreign import, thereby profiting Japanese or German companies, but reducing our support of OPEC. Third, get on a waiting list for an American small car, few of which were available. Fourth, drive less and ride on the municipal bus line. (Choice number four is hypothetical, which I added only to make my model elegant. Hardly anyone who was not employed by a university or a newspaper took the fourth choice very seriously, and even they took it seriously only for other people.)

Millions of Americans decided to start sending dollars to Japan in order to cease sending money to OPEC nations, by way of Texaco, Exxon, and so forth (minus 20 per cent for handling). We made that choice because we calculated that we would serve our own self-interest better by reallocating our budgets away from Detroit and Saudi Arabia, and toward Japan or Germany, keeping whatever money that was left over to spend on something else. That, basically, is "the American way." Americans want extra money left over for something else. That is also the Japanese way, the German way, the Swedish way, and the Lower Slobbovian way. Consumers want more money left over after they have made any given purchase.

Does this astound you? No. Does this outrage you? No. **But it does outrage people who defend the tariff idea.** They call for government action to put the American consumer in his place. And they do it all in the name of patriotism and "true economics." They call upon the U.S. government to stick a gun in your back and force you to buy American.

We could wave our American flags a lot easier if our government weren't twisting our arms.

### Twisting Arms

A lot of automobile workers in the United States are threatened with the fate that struck Hudson's employees.<sup>2</sup>

2. So, by the way, are Japanese auto workers. The challenge has begun: cheap South Korean automobiles. This is why Japanese auto producers are now upgrading their image; they want to produce "almost Mercedes" cars in the \$20,000 range. They know that the Koreans will overtake them in the "low end" markets.

1. This section was originally published in *The Freeman*.

will be a gentleman, and refrain from mentioning any corporate names. I will simply lump them all under the category, **Son of Hudson.**

Workers and management at Son of Hudson Motors are concerned. They find their share of the market declining, their unit costs of production rising, and their pension hopes fading. They look for an answer. The main cause of their problems is that the American public is buying fewer cars, or different brands of cars. They buy every four years, or even five years, instead of honoring the older rule: "Trade it in after three years or 60,000 miles, whichever comes first."

What is the obvious way to revive immediately the sagging fortunes of Son of Hudson Motors? Twisting some arms. Of course, no one connected with the company would think of actually going down to the local Toyota agency and twisting the arms of potential buyers as they walk in the door. Those kinds of tactics are reserved for non-union members by auto union members, and the auto union has a limited number of professionals in this highly specialized field. Besides, management would regard this as unsporting (at least in the early stages of a recession). No, there is a better way, a more cost-effective way, a more traditional way. Manufacturers call it "the American way." **Get the government to restrict auto imports.**

"Get your hands on a Toyota, and you'll never let go!" The employees at Son of Hudson Motors apparently believe in this catchy jingle. What needs to be done, therefore, is to make sure that fewer American consumers get an opportunity to get their hands on a Toyota. So they get a cost-effective, historically acceptable **squad of goons** to go out there and twist a few arms. But nobody calls it a goon squad. They call it Congress.

#### **"Educating" the Consumer**

Picture this scene. Joe Lunchbucket goes down to his friendly Toyota agency to check out the new models. As he steps up to look at the price sticker on one car whose style pleases him, a giant of a man steps up next to him. "You interested in this car, Mac?" Joe gulps. "Why, yes. Are you the salesman?" Howls of laughter greet him. The goon gets hysterical.

Joe looks at the price. It is the price of the car as it rolled off the boat in California, plus shipping to his town. "That price ain't no good here, Mac. It costs 20 per cent more." Joe, startled, wants to know why. "These unpatriotic foreign cars cost more, that's why." Joe wants to know who gets the 20 per cent. "Funny you should ask, Mac. I do. It's all part of a program to save America. I'm here to help you to save America. You want to save America, don't you? What's good for Son of Hudson Motors is good for America."

(Who keeps the extra 20 percent? If it is a tariff system, Congress does, but Son of Hudson Motors may be able to hike its prices by 18 percent. If it is a quota system, Son of Hudson keeps it all if the guy walks away from the import and then buys a new Son of Hudson car.)

Of course, this is all exaggerated. Nothing like this actually happens. There really isn't some giant hulk of a guy in the Toyota showroom. There is only a mild-mannered customs official at the dock in California. This is more cost-effective. It is also politically acceptable. But Joe's arm is just as sore, isn't it? If he wants to get his hands on a Toyota, he will have to put up with a sore arm (reduced bank account). This government-imposed soreness is supposed to be just slightly more painful than the pain from buying a new Son of Hudson. Joe will have a sore arm in either case, but Congress wants the comparative soreness factor to favor Son of Hudson. This is the American way, political-style.

The genius of the system is that **the victim seldom recognizes his assailant.** Worse, by believing this traditional (tariff) version of the American way, the consumer convinces

himself that goon squads are necessary, just so long as they only work the docks and carry official identification when they extract their "protection money." That really is what we call it. Protectionism.

#### **Another Variation: Export Controls**

If the problem facing Son of Hudson is foreign competition, then there is another way to accomplish the same end. Americans have to buy foreign currencies when they make a purchase of a foreign product. They may not understand this, but specialized currency traders do. Traders buy a foreign currency with dollars, and then they sell these foreign currency units to American firms that want to import foreign-produced products.

What if Americans couldn't buy foreign currencies? Then it becomes a case of "No tickie-no washeel!" No more Toyotas, unless they are built in the U.S.A. (Honda is now the number-four U.S. auto producer, having displaced American Motors, which in 1953 manufactured not only the Hudson, but also the Nash.) Wouldn't that solve the problem for Son of Hudson? Wouldn't that stop the "devastating" flow of foreign goods to America's "defenseless" shores? Of course it would. So here is my plan.

First, you get Congress to impose massive export restrictions on domestic producers. Make it illegal, or at least very expensive, to ship goods and services out of the country. That way, foreign buyers will start buying goods that are not "Made in U.S.A." Just get the price of U.S. goods high enough, and foreigners will buy elsewhere, right? And if they refuse to buy American goods, there will be far less demand for American dollars on the international currency markets. After all, if foreigners can't buy our goods and services, why would they want to buy our money?<sup>3</sup> **The dollar may even collapse internationally.** Then Americans will not be able to afford to buy foreign currencies. This is just what we need. Anyone can see this. (Except Congress.)

I think you understand this now. If foreigners stop offering to buy dollars with their foreign currencies, then Americans will be unable to buy foreign currencies with dollars. If Americans can't buy foreign currencies, they can't buy foreign goods. Best of all, nobody blames Son of Hudson Motors for its advocacy of a "selfish, short-sighted policy of protectionism."

This probably seems like a peculiar way to make the case of saving Son of Hudson Motors from the onslaught of foreign competition. In fact, it sounds downright crazy. That, however, is my point. What sounds beneficial from one perspective, namely, **the prohibition of foreign imports**, sounds utterly preposterous when viewed from the other side of the coin, namely, **the prohibition of American exports.** But the argument for one is inevitably the argument for the other, for the economic consequences are the same: the prohibition of trade.

Unfortunately, those who defend tariffs refuse (or are intellectually unable) to follow the inescapable logic of their position. If the government passes tariffs, then our export markets will shrivel up, but nobody except free market economists will blame the actual cause of the problem.

Then exporters will call for taxpayer-funded export subsidies, and Congress will dutifully provide them. Thus, the consumer will wind up paying export duties, higher domestic prices, and an occasional tariff. Hooray. We will all be richer then!

#### **My Plan to Save Son of Hudson**

For the sake of argument, let us assume that I am a defender of tariffs. Let us also assume the impossible,

3. They might want to invest here. There are now faint political rumblings to limit this, too, but a complete prohibition will not come about: the government needs foreign buyers of Treasury debt.

namely, that I am a defender of tariffs who really does understand economics. None exists, of course.

What if you, as a "concerned" American citizen, should come to me in search of an answer to the problem: "How to save Son of Hudson from bankruptcy?" First, as a defender of tariffs, I offer you the typical arguments against imports: unfair foreign competition, "dumping," low foreign wages, and so forth. My solution: **restrict imports**.

Not willing to leave you with any doubts, assume that I then proceed to give you my alternative solution: **restrict exports**. At this point, I begin to create doubts in your mind. This begins to sound crazy. You have come to me in search of an economically acceptable justification for "buying American," and now I sound slightly off my rocker. But my argument is logical. Let me explain myself:

"You see, if foreigners can't buy American products, then Americans can't buy foreign products. You **do** see this, don't you? All the government has to do to protect Son of Hudson Motors is to prohibit the export of American grain, American forest products, American chemicals, American computers, and American technology in general. That would do it. Instead of putting a bunch of customs agents on the docks to keep out foreign-made products, all it has to do is to put them on the docks to **keep in American-made products**. No muss, no fuss.

"Now look here, I want to help. You're looking at me rather strangely. Sure, it sounds a bit crazy. But after all, isn't the whole idea to get people to 'buy American'? Now I come along and tell you that the best way to get Americans to buy American is to keep foreigners from buying American. You say that wasn't what you had in mind.

"What do you mean, that wasn't what you had in mind? Why didn't you say so in the first place? You wanted to know how to save Son of Hudson Motors from bankruptcy at the hands of foreigners. That's exactly what I'm showing you. But now you start complaining about my alternative plan. You didn't come here to ruin the American farmer, you say. You didn't come here to wipe out the international market for American technology, you tell me. All you wanted to know was how to save Son of Hudson.

"Don't you understand? The alternative plan is really the same as the original plan. It is simply a different way of describing the same inevitable economic results of restricting voluntary trade.

"Look, let's deal with one problem at a time. You keep trying to change the subject. You keep wanting to get foreigners to buy American grain, chemicals, computers, and so forth, but you don't want Americans to buy foreign cars. You want Americans to buy American. But you also want foreigners to buy American. Look, friend, **make up your mind**. You can't have it both ways. **Congress can save a failing automobile company from foreign competition, but only if we are willing to accept the inevitable contractions in our export markets**. Congress can force Americans to 'buy American,' but only by forcing foreigners to 'buy foreign.' But if you want foreigners to have the economic ability to buy American products, then you have to allow Americans to buy foreign products. Either you want trade or you don't. It takes two to tango, my friend. Just who is it that you want to 'buy American'?

"Yes, yes, I know. You want **everybody** to buy American. Americans should buy American, and foreigners should buy American. Everyone should buy only American. Tell me, what do you mean by the word, 'buy'? I thought 'to buy' meant 'to exchange.' I thought it meant, 'I get something of his, if he gets something of mine.' Now you're telling me everyone should buy American products. This means that **you expect me to give my goods away for free**. Are you nuts?

"Tell me, please, if I can't buy anything from him, just what is it that I get from the foreigner when he gets my prop-

erty? Good will? A warm feeling? If I'm supposed to ship him my grain, or computers, or whatever, what do I get in return? I'm not running an international charity, buddy. I'm not in this for amusement. **If some foreigner wants to buy anything from me, he darned well better have something to give me in return.** If I have to 'buy American' by law, and he wants to 'buy American,' too, he can do his shopping in somebody else's store. Some American seller may be stupid enough to 'sell' him something for nothing, but not me. I wasn't born yesterday, you know."

### Born Yesterday

Defenders of the tariff idea really have yet to come up with an economic definition of the verb, "to buy." They call the government to come to the aid of a particular American industry by imposing tariffs, quotas, or other import restrictions, and simultaneously they call for Congress to enact export subsidies, loan guarantees for exporters, and similar coercive wealth redistribution schemes. Amazing, isn't it? Congress passes a tariff, and the next thing you know, American exporters are going bankrupt. So Congress passes export subsidies, and the next thing you know, prices for everything start going up. So Congress passes price controls, and the next thing you know, everything starts getting scarce. So Congress passes a rationing scheme, and the next thing you know, the world economy collapses. What's a Congress to do?

**What Congress should do is to allow voluntary exchange.** I buy, he sells. I sell, he buys. In fact, every time I buy, he is buying. I buy his goods by selling ("giving") him American money. He is really buying future American goods; he really does not want green pieces of paper with presidents' pictures on them. He is "buying money," but only because he expects to buy goods from someone who will be willing to accept U.S. money later on. And if I sell him goods, then I "buy his money," but only because I want to buy goods from his country later on.

When we ask people to "buy American," what do we really mean? If we ask Americans to buy American-made products, and **only** American-made products, then we are telling American producers to sell to American buyers, and **only** to American buyers.

If those vocal people who want all Americans to "buy American" are not equally willing to admit openly that they are simultaneously calling for American producers to sell only to Americans—the **destruction of our export markets**—then they had better drop their slogan. Conversely, if they want foreigners to have the option of "buying American" from American sellers, then they have to allow Americans the option of "buying foreign" from foreign sellers.

They will not do this, of course. They would first have to understand economics. They would also have to become honest in their arguing. We have been waiting for over 300 years.

"To buy" is always "to sell." It is the **same transaction**. It is an **exchange**. The person who suggests that Americans should buy only from Americans is inevitably suggesting the absolute abolition of international exchange. He is advocating the destruction of the international division of labor. He is advocating the abolition of international economic specialization. **He is advocating international economic disintegration**, given the key position of American trade, American capital markets, and American technology. He is advocating economic collapse. **He is advocating a return to barbarism.**

We can save Son of Hudson, but only at the expense of some other American manufacturer. The more "freedom from foreign sellers" we give to one industry, the more "freedom from foreign buyers" we impose on another. The time has come to think through the economic, political, and moral implications of the slogan, "buy American." If we are upset by the implications, we had better abandon the slogan.