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Presumptuous Protectionism

Government Authorities Don't Understand International Trade

By Manuel F. Ayau

If someone gets caught selling somebody else's property, he goes to jail. What may be legally bought and sold in the market is limited to legitimate private property acquired by one's own effort or through voluntary exchange with others. Since legal transactions are settled accounts, what is traded belongs to neither the government nor the community. It is private property, and as such the owner can dispose of it at his sole discretion, limited only by other people's rights. Correct?

Incredibly, people discuss international trade as if what is traded belongs to society and this legitimizes government interference with and even imposition of taxes on people who trade but happen to live in different countries.

Even more incredible, the amount of tax depends on the thing that is traded: if you import gloves, you are taxed differently than if you import a TV set even though in both cases what was traded were property rights. The intellectual misconceptions, confusions, and inconsistencies related to international trade are exposed in the pompous statements of "authorities." Here are a few things those authorities don't understand.

Countries don't trade. Only people can exchange what belongs to them. It is you, the consumer, who does the importing, and not the dealer who acts as your agent. It is you who ends up paying the tax if you buy an imported car, for the price has to include the reimbursement to the dealer for the import tax he paid to the government on your account. And, obviously, the tax is not on the car, for it cannot pay any tax at all. It is on you.

Trade is triangular. The butcher does not have to get a haircut to trade with the barber. Nor do the Japanese have to drink more coffee to sell more cars to Guatemala. There is no such thing as a trade balance between traders in a civilized society other than that, ultimately, payments between countries must balance; otherwise, somebody is getting something for nothing—not very likely. And payments are not solely for goods and services, for money is also traded for investment or lending.

When stripped to essentials, trading property rights is simple: When a tailor in the United States wishes to have a TV, he doesn't attempt to exchange his garments directly with the Japanese who owns the TV set; he makes a garment (his private property) and perhaps exchanges it with a person who lives in Germany who, in turn, gives him euros (his private property). Then the tailor exchanges those euros for yen, which will soon become the private property of the Japanese who transfers to the tailor the property title to the TV set the Japanese legitimately owns.

What is traded in the chain of exchanges are property rights to things, and as far as I know, no one has claimed that the legitimacy of property rights depends on one's political jurisdiction. It is increasingly accepted that property rights to things depend only on their being acquired legitimately. Other than using or consuming a thing, the only way of exercising property rights with respect to it is through trade.

Second, the upshot of all export activities is to sell the foreign exchange, or currency, locally to potential importers in order to recoup the costs and cover his expenses in local currency. Since foreign exchange is used mainly to pay for imports, the exporter's market is really in his own country. The lower the import taxes are, the greater the demand for imported goods and, consequently, the higher the price for foreign exchange.

Taxing importers thus reduces the income of exporters who, as a result of the import tax, receive a lower price for their foreign exchange. Thus, unwittingly, most of the import taxes end up being paid by the exporters. Indeed, if import taxes were high enough to practically eliminate imports, exporters would have to find another occupation or go broke, for to whom would they sell their final product, foreign exchange?

Third, one produces exports to be able to import. Exports are the means, imports the end. The civilized world depends on the division of labor and subsequent trading, no matter the political jurisdiction of those involved. Nobody spends more resources making something that he could import while spending fewer resources, and it is this difference in resources spent—the buyer's profit—that drives exchange.

When trade is inhibited by barriers, we are forced to forgo satisfactions because we must make things ourselves that we could have imported at lower opportunity cost. People trade goods in order to incur the lowest opportunity cost. It is relative opportunity costs, not absolute costs, that drive trade between localities, be they in the same or in different countries. This is called by economists "comparative costs."

Fourth, so-called free trade treaties are in vogue, but they constitute bureaucratically managed trade and require trade barriers. Otherwise why have a treaty? If one were to visualize free trade, one would be wise to examine the best example of a free-trade area, comprising 23 percent of the economic world and where the inhabitants have enjoyed free trade without a treaty for over 200 years: the United States of America.

Apparently, the people involved in determining commercial policies in the world today are not conscious that they are dealing with private property rights. And it is obvious that they confuse absolute costs with comparative costs. Since they are "very important people," it is unlikely that they will pause and reflect when these things are pointed out to them. After all, the theory of comparative costs was considered by Professor Paul Samuelson to be the most counterintuitive proposition in all the social sciences.

The best option for a country is to unilaterally remove the barriers it has inflicted on its own citizens. It is they who are deprived of the benefits of competition, who cannot have fluid access to international supplies, who suffer the consequences of corruptive incentives and the social decomposition, privileges, cronyism, regressive wealth transfers, and so on that go with mercantilist import restrictions.

Uneconomical diversion of trade reduces productivity and thus makes countries less competitive. New vested interests emerge in response to regulations, and so it seems likely that managed trade is here to stay awhile, preventing the removal of trade controls and regulations. Would that people respected property rights.

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