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Underdeveloping Indiana

What Would Indiana Look Like if It Adopted the Trade Policies Common to Underdeveloped Nations?

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The people of the 50 states of the United States (5 percent of the world's population) produce 31 percent of the world's gross product of goods and services. Think of the United States as a world in itself, composed of 50 countries with open borders and no restrictions on trade between them. In this world, no limits exist on immigration, enabling people to vote with their feet. There is also considerable diversity in the laws among the states because most legislation is not "harmonized."

Now let us imagine what it would mean to Indiana if it adopted the trade policies common to most underdeveloped countries.

Imagine that Indiana established tariffs and other trade restrictions to provide a new source of revenue, protect local industry (principally steel and autos)–as well as its agriculture–from competition by other states, attract more industries to create jobs, and make sure that Indiana does not have a negative balance of trade.

The first step would be for the government to purchase the required real estate on its periphery to build customs houses where all highways and rail lines enter Indiana from Michigan, Ohio, Kentucky, and Illinois, as well as at ports on Lake Michigan. And don't forget the airports where flights from other states come in.

Look at a map in order to appreciate the extent of the task. Indiana would have to build warehouses at train sidings, roads, airports, and ports to unload, inspect, and reload imported goods from the other states. Then it would have to staff these facilities with customs inspectors to apply the proper tariffs established in its newly created Customs Code. A Bureau of Customs would have to be staffed with personnel adequately trained and prepared for the required tasks; they would have to be specially screened and supervised to avoid bribery and smuggling from other states. The new bureaucrats would naturally have to come from previously productive occupations–and their products be forgone.

Given the present demand for goods, the new additional handling and production costs could not simply be passed on to the consumer, so marginal production would be abandoned. Thus, thanks to the diminished supply of goods and the diminished competition from out of state in the market for raw materials and industrial supplies, prices would rise. Real wages would thus be correspondingly lowered.

New investment opportunities would immediately arise to exploit the competitive advantage of local production over imported goods subject to duties and extra expenses. The duties would be set high enough so that protected firms could attract workers from their current occupations. The old activities would have to be abandoned because they couldn't compete for workers and capital with the more profitable protected industries.

An Intra-American Free Trade Area (IAFTA) would seem to be in order, with the corresponding Protocol with the List of Exceptions to let some things in duty free, provided that they didn't compete with local manufacturers. Goods manufactured in the free-trade area with imported materials and components would get credit for the duties paid on the foreign component. In other words, duties would be assessed according to rules of origin and only on the internal value added. Imports to Indiana made with components or raw materials originating in Indiana would be taxed only on the value added by the other states. Once the initial learning period ended, the war on the newly created crime of smuggling would be undertaken with full vigor and nationalistic zeal. Fines and punishments would be applied with force to violators by the newly established, all-powerful Anti-Smuggling Task Force.

Restriction on Exploitation

Special restrictions such as punitive duties could be adopted for humanitarian and economic reasons to punish other states that exploited their workers by paying less than Indiana's union wages, that did not have adequate environmental laws, or that had right-to-work laws. In addition, since those practices constitute unfair competition, appropriate reprisals would be applied to dumping. As the delinquent states raised their wages to adequate levels, treaties would permit the gradual reduction of the duties, provided those states reciprocated.

To prevent the collapse of businesses threatened with imports from states that tax their citizens in order to subsidize their exports, Indiana would establish new taxes to aid such threatened enterprises and thus neutralize the aggressor's artificial competitive advantage. Alternately, were that considered politically inconvenient, the state could raise duties further to prevent the cheaper goods from coming into Indiana and thus allow threatened industries to sell at higher prices than the subsidized cheaper goods from foreign states. The price increment would in effect constitute a subsidy directly paid to the threatened industries without the government acting as middleman.

A new State of Indiana Department of Commerce, under a State Secretary of Commerce, would be entrusted with keeping accurate statistics of imports and exports in order to allow the government to take timely measures when trade imbalances threatened its economy, and to negotiate fast-track trade agreements with other states. If things didn't go well and the situation became critical, Indiana could appeal to the Federal Reserve Bank for a contingency loan and, if refused, could try the IMF or the World Bank, with the advantage that these would also provide advice on how to correct the situation, as long as Indiana raised taxes and adopted the reform plan they suggested. Better still, in a pinch it could apply for one of those nonreimbursable loans, or have the citizens of other states establish a program of foreign aid to help Indiana; and if all else failed, it could devaluate the Indiana Buck.

Other states could either keep their borders open to Indiana or retaliate and likewise establish customhouses where things coming from Indiana would be searched, inspected, and taxed, while those coming from other states would be allowed to pass free, as if there were a free-trade treaty among the other 49 states.

One day a citizen might complain that his property rights were violated because, before the establishment of the new policies, the government of Indiana had not questioned his right to peacefully dispose of his legitimately acquired possessions by exchanging them for the property of other persons living in the other states. Now, suddenly each of his trades had become the concern of the government because it was no longer considered a private transaction between two people, but a trade between Indiana and some other state. This person might start a movement to recover his property rights, but by that time the many pressure groups and the anti-globalization forces–including workers and owners in the protected industries that had prospered as a result of the new policies–would become politically strong and successfully lobby to prevent free trade and the globalization of Indiana.

Sounds crazy? Well, it is. The question then is: Why give foreign aid to bail out countries that persist in doing such dumb things as raising tariffs to protect their businessmen from foreign competition, imposing unnecessary costs on their citizens, forcing their own poor to subsidize inefficient producers, and financing the dead weight of the uneconomic diversion of workers, capital, and other resources from activities that don't need protection–who then go out begging for help?

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