Free and Fair Trade

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A permanent underclass is emerging in the US. People are locked into low paying service jobs for life. Upward mobility through good paying manufacturing jobs has been sharply reduced. The manufacturing sector is moving from the US. Goods are produced more cheaply abroad and imported to the US. But who can buy them? Not those who work in low paying janitor and fast food. If you have a well paid job which faces little foreign competition such as a lawyer or doctor, this is great. Your income is protected by language and distance, etc. and you can make your income go further by having cheap imports.

But doesn't everyone gain via free trade? You don't want to get into a trade war where comparative advantage is not utilized. These are slogans which need examination. Comparative advantage makes sense if it is based on natural resources, location, organization, human capital. If competitive advantage is just based on paying less for labor, it is not comparative advantage but exploitative advantage. It is one thing to compete by using less labor than your neighbor, it is another to simply pay it less.

I suggest a new fair and free trade principle. No goods can be imported into the US without compensating tariffs which are priced below similar US goods if labor is paid more than X percent per hour below the wage paid in the same industry in the US. For example, German cars produced by workers receiving wages similar to those in the US would be allowed to compete freely and fairly. Cars produced in countries with vastly different wages would face compensating tariffs, the returns from which could be used to supplement the incomes of low income people in the US.

The US and other countries do not allow imports which contain dangerous materials. e.g. we do not allow in meat which contains animal diseases which might spread to US farms or which contains harmful pesticides. Then why do we
allow in goods which were produced by exploiting human beings which spreads its damaging effects to decent incomes for US labor!

Why can foreign countries pay less than western level wages? Supply and demand. Their rapidly growing populations shift the supply curve for labor to the right and wages drop. Why should American labor suffer because of uncontrolled population growth in the world? Or putting it another way, why should naturally protected US occupations gain from the uncontrolled world population growth creating people who will work for subsistence wages because of lack of opportunity? This is not fair to other US workers or foreign workers.

Would this create undesirable trade wars if other countries matched such a policy? The US would welcome similar policies in other countries keeping out our exports if we are not paying at least comparable wages to those paid in the foreign country. In the very long run there are processes of human striving that will equalize world wages. At the present time workers in Korea are striking for higher wages. These workers will not be exploited forever. Japan has a labor shortage and is shifting low wage production to other Asian countries though the living standards for the average Japanese are well below the US. Where have the foreign exchange earnings gone? To the Japanese fat cats. We would do the average Japanese a favor to insist they get closer to US wages. Fair competition is to import products which are truly produced more efficiently elsewhere, not which are cheap because the workers don’t have enough money to buy indoor plumbing.

But is not the acceptance of lower wages a valid method for workers to get a job? What if shoes and textiles were still produced in New England rather than moving to the South and now abroad. But why did the South only have to choose to work for low wages in existing industry? Why didn’t they develop the new industry of the future. The south had little inherent competitive advantage in shoes and textiles any more than did New England for the electronics industry which partially replaced the old industries. Note that some
were still left behind. There should be some wage differential between an electrical engineer and a sewing machine operator. But if the world still needs sewing machines manned, it owes the operator a decent living—and those persons should not be exploited so that the electrical engineer is even richer by being able to buy cheap shirts and hamburgers.