

Free traders: Capitalist champions of unfair competition

Our Buy American Mention of the Week!

by Roger Simmermaker

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Do you like and/or approve of unfair competition? If you're an advocate for free trade you do, whether you realize it or not. You may call yourself a capitalist, but if you approve of free trade, you approve of unfair competition within the capitalist system you propose to support.

What's worse than an unfair system is when the system is tilted towards benefitting foreign producers over our own. That is exactly what the American version of free trade has done for the last 40 years: grant economic advantages to foreign producers that our domestic producers don't enjoy.

Here's a real world example. American-owned New Balance makes about 25 percent of their shoes in the United States. American-owned Nike doesn't make any shoes here. Neither does German-owned Adidas or German-owned Reebok.

New Balance is required to observe minimum wage laws, tax laws, labor laws, family leave laws, environmental and pollution controls, paid vacation and sick leave benefits, and pays 7 ½ percent of their 15 percent share to Social Security for each American worker (the American workers pay the other 7 ½ percent).

Any wage that Nike pays in the foreign countries in which they produce is much less than in the United States. There are few if any of the above laws and regulations in China and Indonesia. And Nike doesn't have to pay an equivalent of 7 ½ percent of the salaries of foreign workers to America's Social Security Trust Fund.

I don't know what it costs for New Balance to make a shoe in the United States, but let's say it's \$15.00. And I'm not sure what it costs Nike to produce a shoe in Indonesia, but let's say it's \$5.00. These numbers mean that New Balance has three times the production-cost burden to "compete" for the spending dollars of the American consumer. Is that fair? Of course it's not.

Economic trade is the only form of competition on the face of the earth where two competitors play by a different set of rules. If your favorite Major League Baseball team played a team from Indonesia, you would find it odd if the Indonesian team had a more favorable set of rules, like batters getting four strikes before they can be called out instead of three, or walks to first base after only three balls instead of four for the American team. How about if it took four outs to retire the side for the Indonesian team and only three outs for your favorite American team? You would surely cry foul (no pun intended).

Nike probably pays a small import tariff when their shoes enter the United States, but the tariff rate is nowhere near what it would have to be - 300 percent - to make things fair for both competitors.

Why 300 percent, you ask? Simple math. New Balance's production-cost burden is 300 percent higher than that of Nike. That means to equalize production-cost burdens, we would have to impose what could be called an 'equalizing tariff' of 300 percent on Nike shoes to bring their \$5.00 per shoe production-cost burden up to New Balance's \$15.00 per shoe-production-cost burden.

Now I know that 300 percent sounds high, but we should be more concerned with what it accomplishes. It makes trade fair and it makes sure all players are playing by the same set of rules, just like we would advocate in any other competitive activity.

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Actually, my 300 percent tariff scenario is quite conservative if you take one of the studies by the National Association of Manufacturers (NAM) into account. The NAM is a free trade leaning group, by the way.

The NAM study found that it costs 22.4 percent more to make a product in the USA compared to our nine largest trading partners (to pay for things like Social Security taxes, etc. listed above). The capitalist view is that all production-cost burdens must be recovered in the price of the product. If that's true, then a domestic tax has the same effect as an import tariff, so we can easily call an import tariff a tax. And if tariffs are taxes, the NAM says we are imposing a 22.4 percent tariff on our own production, while imposing a 3 percent tariff on Nike shoes.

At the same time, though trade deals like the Trans Pacific Partnership (TPP), our government is trying to lower import tariffs even more, while continuing to saddle domestic production with ever more regulations and other cost burdens.

Regulations can be a good thing. No one wants a dirty domestic factory to emit cancer-causing chemicals into the atmosphere that can kill the people who breathe it. I get that.

What I don't get is allowing China to do it (their challenges with polluting their own atmosphere have been well-documented) and allowing them to undercut American production on price because we cannot and should not.

In short, those who abide by and absorb the cost of American laws deserve protection from those who don't. We have the most lucrative consumer market in the world. Everyone wants to sell to us, so we should be able to dictate the terms surrounding how goods enter into our American market. And if anyone gets an advantage, it ought to be us, but it's not.

Capitalism? Yes. Common-sense regulation? Yes. But free trade? No. It's unfair, unjust, and it has put way too many Americans in unemployment lines that didn't deserve it.

Nike CEO Phil Knight once said the reason his company used low-wage Indonesian labor was because "Americans don't want to make shoes." Really? Tell that to the American workers at New Balance.