

10.13.00 Level Playing Field

American firms and workers enjoy the benefits of operating within an important economic center. They say they do not mind competing with firms and workers in Europe, Asia, Australia, Latin America, or in the periphery (Third World) as long as all firms and workers are on a “level playing field”. It is not always clear what they mean by this. Sometimes they mean the state should correct obvious injustice. Sometimes they mean the state should hinder foreign goods and labor from competing in the domestic market, that is, they mean Modern Mercantilist protectionism.

This chapter is about how domestic trade and politics influence the international playing field. Some parts of the international playing field really are not level. Sometimes the United States is at fault, and sometimes other countries are at fault.

Countries deliberately tip the field for the reasons below. One country wishes:

Category 1: Dealing with political problems

-To encourage the material (economic) development of other countries so as to change their domestic political, social, or religious organization, such as to help them get over Communism or to avoid the conditions that breed terrorists.

-To thwart the material development of other countries, such as Cuba, so as to force them to change, to keep them weak, or to punish them. -To contain dangerous states such as North Korea or to contain dangerous groups such as Al Qaeda.

-To minimize the political influence of other countries within our country. -To show friendship with other countries. -To show disapproval with other countries.

Category 2: Creating and maintaining our own situation

-To maintain the advantages of a center. -To maintain the advantages of state officials and their clients.

-To protect industries that have problems, and to protect the workers in them. Usually these industries and their workers are the clients of state officials.

-To protect beginning (“infant”) industries within a country.

-To help our country develop.

-To prevent erosion of current development or current economic status, to keep our situation from getting worse.

-To minimize the economic influence of other countries within our country.

Category 3: Leveling the economic playing field, and revenge

-To change the policy of another country back toward free trade.

-To level the playing field, so that tip counters tip. This action re-levels the playing field at a lower level than fully free trade, as with the handicaps in a race.

-To strike back against other countries because they already have tipped the playing field, even if our action further distorts free trade.

Category 4: Helping other countries develop

-To encourage the material (economic) development of other countries so that they will be good trading partners in the future, even if this action hurts industries within our own country now.

In real life, these reasons are thoroughly mixed up and almost impossible to separate. Sometimes nations do not admit to acting on some of these motives, such as revenge. This chapter focuses on economic reasons (Categories 2, 3, and 4) because political reasons (Category 1) are too complicated. The next chapter briefly returns to political reasons.

Usually the best response is to adhere to free trade despite what other countries do, and not to use trade policy as an economic, political, military, or social tool. This chapter argues for that position, although it also recognizes the hardships that can come of that position.

The United States can only argue for free trade and a level playing field if it trades freely, which it does. Before arguing for free trade, and before we can understand what a level playing field might really mean, we have to look at ways in which the United States has deviated from free trade, and why. Because the United States is a major center, the playing field already is tipped in our favor, and what we see as the tipped playing field is actually a level playing field from another view. When we ask for a level playing field, other countries perceive our request as the United States demanding to continue with a field that is already tipped for us.

Preliminary Ideas. A reasonable interpretation of a level playing field combines the idea of fairness with the expected results of perfect competition: ALL the costs of similar input factors reflect their cost effectiveness. ALL the costs of similar input factors should be the same in the periphery as they are in the center, given any differences due to transportation costs. The cost of iron should be the same in Korea as it is in Los Angeles, given the different costs of shipping from the places of origin. The cost of oil should be the same in Bangkok as it is in New York, given the different costs of shipping. The costs of similar labor should be the same all over the world. The costs of going to the dentist or of hiring a crane operator should be the same all over the world, as long as the dentist and the crane operator have similar cost effectiveness (marginal revenue productivity). The cost of a common laborer should be the same all over the world as long as the cost effectiveness is the same. If a common laborer costs a total of \$12 per hour in the U.S., including straight wages, Social Security, and any other benefits, then that is what a common laborer should cost anywhere in the world. If an American firm has to spend \$2 per hour per worker to comply with safety regulations, then all firms all over the world should have to do the same. If U.S. producers have to internalize the externalities of pollution and safety, and have to bear those costs, then producers in other countries should have to internalize the externalities as well and should have to bear the costs as well. Taking care of workers, controlling pollution, cleaning up the environment, and preserving nature, all increase prices. If U.S. producers have to bear those costs then firms in other countries should bear those costs as well.

Yet costs are not the same all over the world. Labor costs in particular are not the same all over the world. A competent doctor in Asia really does cost less than a competent doctor in the United States. While America is trying to defend the ecology to some extent, countries such as Brazil, China, India, Thailand, Indonesia, and Korea are getting wealthy in part by exploiting their ecology. Other countries allow capitalists to exploit labor, and could care less about social justice as long as the problems do not lead to rioting in the street.

We can use the idea of equal costs to understand the ideal level playing field, and to understand how it is tipped between centers (the United States) and peripheries. We can use it to understand the effects of tipping or to understand the goals of leveling.

“Giving a concession” means giving a reward: a positive transfer such as giving foreign aid or giving loans at reduced rates; a positive benefit such as allowing access to a domestic market at reduced tax rates; and a privilege such as letting a country get away with pollution or with dumping goods cheaply to secure market share. To “sanction” another country means to punish it in some way such as by removing a concession, imposing a tariff on imports, restricting the number of their goods that might be imported, imposing rigorous inspections on their imports, etc. In theory, sanctions are justified by appealing to an unfair practice by the other country. Sanctions supposedly re-level the playing field by

compensating for how the other country tipped the playing field in its favor. Concessions might make up for a disadvantage by another country or they might deliberately give the other country an advantage. In reality, sanctions often do not level the playing field but tip the field in favor of the sanctioning country.

Aboriginal America. When America first began to rise economically, it did so by many of the same methods that we now deplore in competitors. For many reasons, including abundant unspoiled land, America had cheap labor compared to England and other European countries. That is why England sent children to be indentured in America to learn a trade. Then, when the indentured servants started their own trade, they became semi-skilled workers that could compete with their European counterparts.

America specialized in small manufactured goods that American workshops could make to compete with European workshops. America did not try to compete head-on with goods that were high tech at the time, such as building warships (although America did build trading ships). Instead, America made small iron goods such as pots and stoves because America had iron ore, and it had coal and trees that it could use as fuel in the forges. America began a textile industry. America sent small wooden goods to Europe.

England was so upset by American cheap labor and American cheap low-tech goods that it banned some American products, or restricted the development of competitor industries in America. It succeeded in slowing the growth of the textile industry here until the 1800s. England limited the iron goods that could be imported from America. These restrictions were a large motivation behind the Revolution. After the Revolution, American textiles, chiefly from mills in Massachusetts, seriously hurt the low-tech cotton industry in Europe. Those mills were notorious for how badly they treated women workers, who were the majority of workers – the same situation we now find in Malaysia or Indonesia with the assembly of electronic goods.

America had fewer associations protecting workers and owners than did Europe. Competition was freer. America did not have to internalize the externalities of protecting labor, such as with old age pensions. America had lower wages and lower prices. American firms and workers got away with this lack of organization and protection because the vast natural resources meant that people could much more easily be fed and housed, even when old.

America devastated its forests, plains, soils, and ore deposits. There was little idea of conservation. In the Eastern half of the United States, almost no original “virgin” forest remains. Nearly all of the forest that anybody can see in the East of the U.S. has been clear-cut down to the ground at least three times. Trees have grown back where allowed, but the original complex forest with many kinds of vegetation

and animals did not return. Karl Marx vividly described “mining the soil” in America, a practice wherein farmers moved into an area, planted as heavily as they could for a few seasons until they wore out the soil there, and then moved on to another area. Parts of Michigan still suffer from what people did to the soil 200 years ago.

This despoliation of nature kept American goods cheap. It allowed owners here to build up capital, and thus to fund the rapid and massive industrialization of America that followed throughout the 1800s.

This is what countries in the Third World now do. They excuse these practices in the same way that historians of America excuse the American practices: the practices provided cheap goods that allowed Americans to enter the world market, to get capital into America (including trained people), and to build up American capital.

It is hard to criticize Third World countries, and to force them onto a totally level playing field according to the standards of modern developed nations, when we did the same things as a young nation that they are doing now, and when we advanced only because we could do those things.

There are some differences. America leveled nature with hand tools. Over the long run, some of nature could come back. Modern Third World nations have bulldozers and tractors. The devastation they cause is faster, more complete, and final. Nature probably cannot come back there. America is in a temperate climate, and has generally good soils that recover. Strangely enough, tropical soils are more delicate and take longer to recover. Most developing nations are in the tropics. Their soils do not have a chance to recover after being bulldozed, stripped, and washed away. Population grew quickly in young America because of the abundant food, but disease and accident still limited population. In the Third World, population grows very fast because of better food and because modern healthcare keeps alive many children. The more those countries develop, the more they have to develop. America polluted its environment largely with wood fires and leftover slag that nature could digest. Modern development pollutes with factory smoke and factory effluents. These contain chemicals undreamed of a hundred years ago, pollutants that do not quickly break down. Modern pollutants travel a lot further away than the fires of small factories two hundred years ago, affecting even developed nations across the ocean. Unlike America two hundred years ago, current developing nations do not have to start from scratch. They import fairly advanced technology and they import the problems that come with it.

These different conditions require different policies. These conditions do allow us to require developing nations not to devastate nature. It is still hard to draw the line between using nature so as to develop without devastating nature.

It is not clear that these different conditions allow us to demand that developing nations play on the same level playing field as modern developed nations, in particular when modern developed nations want developing nations to develop faster so as to insure the safety of the developed nations.

Present American Transgressions. America is hardly a level playing field even within its own borders.

It is not possible to discuss here all the ways in which American tax policies and domestic programs deviate from the free market. Thousands of books have been written on this topic, and new deviations appear with each meeting of Congress and the various state legislatures. I can only mention a few ways that are important for international relations.

Any aid to any industry is an indirect punishment to other industries because it makes the privileged industry better able to compete and to take resources. Aid to airlines is a punishment of trains, buses, and even cars. Aid to any one industry brings a cry of "I need it too" from other industries just as giving a cookie to one child brings cries for fairness from all the other children. The cries cannot be denied and still have peace in the house. Thus we get thousands of laws giving privileges.

A persistent large source of deviation is agriculture programs. Nearly all nations have agriculture programs that cause deviation from the free market and from free trade. So does America. America strongly subsidizes research.

It might not seem so to working class parents, but, compared to most countries of the world, America strongly subsidizes education.

It might not seem so to the 20% of Americans (at least) who have no health care insurance, but America subsidizes health care, especially for the elderly and for the middle class, through subsidies to research and to hospitals.

Although not a comprehensive retirement plan, and not fully subsidized, still Social Security is an important retirement program that is lacking in many parts of the world.

Although meager by European standards, by world standards, the welfare system and social support system in the U.S. is lavish.

Infant Industries. Now we come to the most commonly used appeal for an exception to free trade. Even people who otherwise strongly defend free trade and strongly resist any interference in trade sometimes defend protecting industries that are just starting up, such as bio-technology, nano-technology, and stem cell research. Industries that are just starting up are called "infant industries":

they need care now like a baby but later they will stand on their own feet like a child. Defenders of infant industry protection say that, by easing some of the costs and by taking the edge off the competition, these infant industries can “get it together” well enough to survive regular costs and to bear competition later without any aid.

Only in a few rare exceptions is this argument true. The exceptions tragically mislead us. In most cases, protection does not help development but instead malingers on as a handicap. We would be clearer about the situation, and better off, if protection for infant industries never worked.

Detractors point to the failures and the temptation. The argument for infant industries was used to protect the American textile industry in the early 1800s, and 200 years later the American textile industry is still protected. America began protecting farmers in the 1920s and the protection is greater now than ever even though American farmers are the most efficient in the world.

On the other hand, California’s support of stem cell research is likely to create a large industry there and likely to make California the center for many kinds of bio-technology in the future. California’s success depends not on direct protection but on support through research. Despite this isolated success, we generally should not help infant industries.

Most countries support infant industries through grants of money (or privileges) and by blocking foreign competition. The United States also supports infant industries by bearing the costs of research, and then handing the research free to the infant industries – as with stem cell research in California and with early research that led to the modern airline industry and to modern computers. That kind of research support can be far more important than direct support or than blocking foreign competition.

Level Playing Field for Labor. Domestic economic distortion confuses the question of what standard to apply to the playing field to know that it is level. Labor can serve as an example.

Forget about the international arena for now. Pose the labor question entirely within the domestic arena.

The imaginary Lucrasoft firm in America makes business software. Suppose the owner of Lucrasoft decides that all domestic software industries should compete on a level playing field. This employer pays Lucrasoft workers well, including benefits, and he resents that other employers pay less. This owner finds out that janitors and computer programmers get paid more in Lucrasoft than they get paid in other firms. Although Lucrasoft is high-tech, controls a large market share, and can afford high wages for high productivity, the owner still feels it is not fair.

To level the field, the owner wants to set up standards for all employees in the software field. All comparable employees have to cost their employers the same, including all salaries and benefits, and

including all the costs of meeting any externalities. The standards can be based on some kind of industry average.

Under this plan, a programmer, a janitor, a clerk, a manager, or a mechanic in Lucrasoft gets paid only as much as any of those people in any firm, including salary, benefits, and the cost of cleaning up any chemicals or externalities. This seems reasonable on the surface.

What should the standard be? Who decides? I wish we all got paid according to the comparative standards enjoyed by autoworkers or airline workers of the 1970s, but that cannot happen. How about the standard prevailing for clerks in large retail stores such as Sears, Penny's, K-Mart, and Wal-Mart? Many people will not like that either.

Most of the people I know that complain about an un-level playing field in labor want to pay their own employees very little but want other people to pay their employees a lot, so that the employees of other high-wage firms can buy the goods that the low-wage firm makes. This is a classic case of the "fallacy of composition" and of not thinking through interactions.

The basic neoclassical answer is that all employees get paid according to their marginal revenue productivity (cost effectiveness) for particular jobs in particular firms in particular industries. It is not necessary that the same type of job get paid the same in all firms or in all industries. A janitor at the main building of IBM likely gets paid more than a janitor in a rural school in rural Alabama. A computer programmer at a successful game firm probably gets paid more than a computer programmer at a small educational software firm even though both do comparable work. If disparities are too great, then people should be able to shift jobs until the disparities better reflect cost effectiveness. If the programmer at the educational software firm is willing to work for less than the programmer at the game firm, then the game firm fires its current programmer and hires the one from the educational software firm.

If workers in different firms get paid differently for seemingly comparable labor, then we have to look for differences in the conditions of their work. The janitor at IBM works with more capital including chemicals and machines, so one hour of his/her work makes more of a difference (is more cost effective, yields greater marginal revenue productivity) than one hour of work by the janitor in the rural Alabama school district. So the janitor at IBM gets paid more. Programming good games takes a special talent that is not always evident on the surface, but the game company knows about it, would miss that talent if it were gone, and so is willing to pay more to keep that talent. The market for educational software is nearly perfect. The market for games is not perfect. The game firm likely is a monopolistic (oligopolistic) firm in a differentiated market and makes real profit, like the market for

brand name sodas or German cars. The employees share in the profit when they work to their level of cost effectiveness.

All these distinctions hold too for disparities between America and the Third World. America is a center while the Third World is a periphery. American firms benefit from a high ratio of capital to labor, and from imperfect competition. American laborers benefit from working for successful firms. Those firms have a lot of technology for labor to work with. Those firms have a lot of technology for labor to work with indirectly through their relations to other firms in the center, even if not directly through a lot of equipment in their own factories or offices. A legal firm in the United States benefits from the technology in the factories of its manufacturing firm clients, and not only from the computers sitting on the desks of a few clerks. A farmer benefits from the technology of all his/her suppliers, and not only from his/her own tractors, harvesters, and irrigation lines. Soap makers in the United States benefit from niche markets in a way that soap makers in the Third World do not – although clever marketers are correcting that gap even now. Labor in the periphery might work for a branch of a central firm but it does not benefit from imperfect profits of the central firm as do American workers of the central firm. American workers get higher wages because their imperfect employers carefully use them only to the extent of cost effectiveness in the conditions that prevail in America.

The playing field is more level than we realize if we look at the big picture.

Lucrasoft wished a level playing field, by which it meant it wished to pay its workers the same as other firms that paid less, regardless of the cost effectiveness of its workers. To create that greater equality would require an outside evaluation and a regulatory agency. Somebody other than the market would have to decide what is fair for which firm. Eventually the task would fall to the state. Most American firms strongly object when the state tries to regulate wages and other internal affairs, even during crises such as the inflation of the 1970s. If American firms want a level international playing field, they have to accept internationally what they reject domestically: international standards, international inspection, and international regulation.

Suppose Lucrasoft manages to institute a more “level” domestic playing field through some set of rules. What happens when things change? What happens when somebody invents a new game, or a better hybrid tomato? In a free market, the Invisible Hand (automatic self-regulation) would take care of the problem by moving capital around. Now the Hand is tied. Firms have to go to the regulating agency to plead for privileges, exemptions, and sanctions against other firms.

Even domestically, even without a level playing field, tolerating the differences is usually better than trying to forcibly level the playing field. The unequal playing field might cause some honest

hardworking business people to fail when they should have succeeded, but even that might be less bad than instituting a forced false equality.

Roundabout Concessions and Sanctions. This section is an interlude before going to the viewpoint of the strict free market. We need to look at how concessions and sanctions actually are given. If a country, A, openly gave privileges to another country, B, that action would be such a clear violation of free trade that other countries (C, D, E, etc.) could use the action as an argument against A and B. To avoid this embarrassment, instead countries give privileges roundabout.

All countries typically argue that all other countries are so bad to begin with that any original country, A, cannot afford free trade. Instead, country A starts from a baseline of restricted trade. It automatically imposes restrictions on all countries as the baseline condition. It starts from a condition of sanctions.

Starting from this baseline of un-trade, country A then rewards other countries (B, C, D, etc.) for their good behavior as trading partners by allowing other countries (B, C, D, etc.) various degrees of free access to markets of the original country A.

Most nations have a scale of privilege for other countries. Other countries begin on the bottom rung of the scale. The higher in the scale a nation climbs, the more restrictions are lifted. For example, the best trading partner status with the United States is called “most favored nation”.

In practice, the category system is not fully accurate because the United States trades with Canada on terms that are often better than it gives to any nation – nearly free trade in fact. Also, the United States “cuts deals” bilaterally with particular other countries that give some other countries better access than the general category of “most favored”. However, in general, the ranking system does reflect the degree of freedom in trade.

This ranking system is a way of applying concessions and sanctions without being obvious. This system is like telling a child that all children are inherently bad, so you will hit him/her 10 times per day on general principles unless he/she is obviously good. If Naughty Ned does as you wish, you will hit him fewer times for each rank of “being a good child” that he achieves. The highest rank is “little angel”, for which a child is hit only once per day. If you wish to continue hitting Naughty Ned six times per day, it is not necessary to find an excuse. Instead, merely declare to Ned, “You have not achieved the rank of ‘good child’ today, which rank would entitle you to be hit only two times; so I will hit you six times today as befits your rank of ‘whining brat’”.

As nations rise in rank toward more favored status, it appears that free trade wins out over bad mercantile practices. Actually, bad mercantile practices won out over free trade from the beginning, and the movement toward free trade is only a ploy to preserve the ideology of free trade.

Movement up or down the scale is not made only on the basis of the actual trade policies of the other country. It is also used to change their politics or even their domestic organization. We tell countries that they must “have a better record on human rights” or else we will reduce their trade ranking. It is hard to talk about specific concessions and sanctions because they have to be placed in the context of what was originally taken away, and each country differs significantly. This kind of confusion is a reason for the complex schemes – the confusion helps obscure what is really going on - and it is a method to keep professional diplomats employed.

Doctrinaire Response. Now I can present the argument for free trade even with a tipped playing field. Strong advocates of free trade often argue thus:

“Trade is trade, international or domestic. Free trade is good. Interfering in free trade is bad. The international price system is a public price system, even if it is a little more quirky and unfair than the domestic price system that prevails in the United States. Interfering in free international trade is interfering in the public price system. Interference is far more liable to cause harm than to cause good. Not only will interference cause bad effects in international trade, those bad effects will cause bad repercussions in the domestic economy. Leave it all alone. Take benefit where we can find it in terms of good prices, and do not think too much beyond that.

“So what if the playing field is tilted? Even if the playing field seems unfair, still so what? Ignore all the tricks played by other countries. Do not indulge in sanctions or concessions ourselves. Do not get confused by games and do not get tempted by quick-and-easy revenge. Practice only free trade. By practicing only free trade ourselves, even if other countries do not, we benefit where they lose, even when it appears that they benefit and we lose.

“Any distortion of the price system causes additional costs and leads to misuse of resources. The foreign originator of the distortion is much more liable to pay the costs and suffer from the misuse of resources than we are. A cost is a cost, and a benefit is a benefit. Someone has to pay the cost, but we do not pay the cost. If we do not have to pay the cost then we should not worry. They pay the cost, either immediately or in the long run. In the meantime, we benefit from the low price of their goods. Lower cost for their goods here means that we can better use our resources in our strengths.

“Suppose a country makes cheap steel by polluting its environment. So what? We get their steel for less than we can make it ourselves, for less than true cost. We get direct benefits in cheap goods made of steel such as cars, and we get indirect benefit when the low costs allow other related industries to develop, such as aluminum casting. When environmental costs catch up to the other countries, they pay, not us. Then, the price of their steel will rise, and we will be in a good position to compete with them. If they manage to build up capital in the meantime through their pain, then all-the-better for us

too because then they will be a better trading partner. What does it matter if our steel industry hurts now? That is a small sacrifice for all the other benefit.

“Suppose a country is able to raise cheap cattle by using drugs that are banned in the U.S. such as antibiotics; or is able to raise cheap corn by using insecticides that are banned in the U.S. such as DDT. As long as the residues do not remain in the food that reaches our mouths, then so what? The same argument applies. We benefit from cheap food while they wait to suffer. Eventually their ecosystem will suffer, and their people will suffer through higher medical costs. Things will even out in the end, and we benefit in the meantime.

“Suppose a country puts a tariff on one of our goods, such as beef. So what? They can buy less of our beef, so their consumers benefit less and their consumers have to pay a higher price not only for beef but also for any goods that use beef such as meals in restaurants. It is unlikely that the revenue from the tariff goes to benefit their economy in general, so they do not gain much of an advantage. We have more of our own beef at home, and so the price of beef here is lower than what it might have been. Our consumers benefit. Because the other country buys less of our beef, they get fewer of our dollars, and so they have fewer dollars to return to us in trade. In other words, they trade fewer of their goods for fewer of our goods. They suffer indirectly as well as directly through beef. If they wish to buy any of our goods, the price of all our goods is slightly higher for them because they have fewer dollars with which to pay. It is not likely they could build up their beef industry so as to compete with us. But, if they could, so what? In the end, we would have a choice of cheap American beef or cheap foreign beef, and again we would be better off in the long run while they paid the price. We benefit either way.

“Suppose we retaliate by putting a tariff on one of their goods, such as wine. We import less wine in total, and consumers here have to pay more for it. The benefit to our consumers declines. Our consumers suffer. The state collects tax revenue from the tariff on foreign wine, but it is not likely that the domestic wine industry will ever benefit directly from that tax revenue. The domestic wine industry gets to charge an artificially high price for their product. They make more wine than they should, they can charge domestic consumers more than they should, and they do not use resources as efficiently as they should. They are protected. If the tariff is ever lifted, then the domestic industry will not be able to compete, and might be severely damaged. The domestic industry uses this argument to make sure that the tariff is never lifted, even if the offending country no longer keeps a tariff on our beef. Do not start down this wrong road even to retaliate.

“There are very few circumstances in which distorting the market works to our benefit, if only we can remain calm enough not to strike out. We get confused and we hurt ourselves when we distort the market.”

Disadvantages. This response is largely correct. However, it has problems. In the doctrinaire and “snotty” form in which advocates usually give the argument, they cover up the problems. To appreciate the full correct force of the argument, we have to face the problems.

In the modern world, externalities are not confined to the originating country, to the source of the pollution. Now, everybody pays the price of polluting the oceans and the atmosphere, even if the pollution comes from as far away as China and India. It is not true that we do not pay the price when other countries pollute so as to manufacture cheap goods. We pay as well. If we pay the price of the pollution, and of impact on our own industries, then we pay double for only a single benefit. It is not clear that the benefit of their cheap goods makes up for our total loss.

It is hard to tell the difference between the results of concessions versus the natural process of specialization and trade as in Comparative Advantage. If the steel industry grows in Korea, is that the result of the U.S. neglecting the steel industry in the U.S. to deliberately allow Korea to develop a hard base or is it the result of natural Comparative Advantage? The answer depends a lot on whom we ask, and is not entirely clear.

Industries in the center are protected through imperfect competition. When an industry grows in some other part of the world, it has to break down the gulf that was created by the advantages of imperfect competition. When a new industry elsewhere succeeds, the impact here can be large and painful. In the 1970s, when Japan and Germany broke into the American automobile market, they literally broke in; they entered in a big jump, and hurt the American industry. When textiles came into the U.S. during the 1980s and 1990s from places such as the Philippines, India, and China, they hurt the domestic industry badly in many places all at once. The American shoe industry was wiped out by foreign competition in the same period of time.

Centers enjoy their benefits through a greater capital-to-labor ratio, which comes through using higher technology. Even so, nations in the center maintain a large workforce of medium-tech and low-tech workers, such as garment workers or assemblers in automobile factories. Competition from other countries often is at a low-tech level or medium-tech level. When low-tech workers or medium-tech workers in the center are displaced, they cannot realistically move toward high-tech jobs. They swell the ranks of the unemployed. They hope their children are able to move into higher-tech ranks. But that hope can only be realized if they can educate their children well, which is hard to do when a person falls into bad employment.

Comparative Advantage implies that countries do not duplicate industries. Rather, an industry moves entirely into one country and entirely out of another country. When one country specializes in

growing corn, it gives up producing wine. When an industry loses ground in one country, it does not just diminish, it tends to disappear altogether from that country.

When America allows the Chinese electronic gadget industry to boom, it loses all the gadget industry here and loses the jobs for all the people who used to make gadgets. When the U.S. quit making VCRs and DVD players (once upon a time, America did make some of those), it lost the entire industry, not just portions. Now, the same thing is happening to Japan as it loses all that industry, not just portions of it, to China.

If a core country loses enough capability, then it is no longer is a core country. After World War I, England almost sank to the status of a Third World nation because it lost so much of its productive ability to other countries. Core countries depend on an interaction of industries within themselves. If enough industries leave the core country then it can no longer sustain the interaction. There is no good theory on what minimum is needed, and how best to preserve the minimum if it seems to be eroding.

Underlying Questions, and Some Suggestions. Advocates of the strong free market position weaken their case by not considering the objections realistically. Advocates of protectionism hurt their case by not seeing the cost to the economy as a whole beyond the benefits to a particular industry. Advocates of concessions for helping development in other countries weaken their argument by not seeing the costs to the American economy. The real question is whether the costs-and-benefits of unilateral free trade outweigh the costs-and-benefits of any kind of interference.

On the whole, free trade is almost always better – as long as we do not have to consider pressing political or military reasons such as terrorism. I largely agree with the doctrinaire position. It is not worth distorting the economy so as to promote our own goods or to punish other countries. It is not worth distorting the domestic economy or the world economy so as to promote the development of other countries. If we have to help other countries, try to help them outright with grants of aid and research, and with programs. Other countries should use Comparative Advantage to produce for export, gain hard currency, and build firm capital bases – including human capital.

This answer is very hard on particular industries that get hurt by practices in other countries – fair or unfair. Chain grocery stores helped keep my father out of jobs; and my mother was a garment worker; so I can guess what it must be like for people that work in convenience stores and grocery stores, and for garment workers, autoworkers, steelworkers, and other people forced out of work by cheap labor and market takeovers. The best response is to maintain a diverse economy so that owners and workers in damaged industries can use their capital and their talent elsewhere. We can support workers while they are out of work. We can retrain and relocate workers through adequate welfare and other programs.

Industries are not necessarily lost forever. If the world economy changes then an industry that America had lost could become viable here again. If the wages of shoemakers in other countries rise enough, Americans can start making shoes again. If pollution problems in other countries finally lead the other countries to give up the bad chemicals and to grow crops cleanly and more expensively, then Americans can resume growing more tomatoes and grapes here. As long as America can maintain a diverse economy, with good education, and with the ability to generate capital, then it can recover from lost industries.

If unfair practices in another country really hurt our ecology or our health, then the state can sanction their goods. If development in China or India causes acid rain in the United States, or causes the ozone layer to further deplete, then we can sanction them. Canada and Europe can do the same to us. If Russia and Japan kill whales needlessly, then we can sanction them. If pesticide residues adhere to the food products of another country, then we can ban their food products. If no residues adhere to the food products, then we probably ought not to ban their products. If countries use chemicals that we ban, and that affect world ecology, then we probably should ban their goods. In particular, we should ban goods that depend on the use of antibiotics or pesticides. The use of antibiotics on animals and fish helps promote resistance to those antibiotics by disease organisms and makes it hard to treat disease. I suffered through several resistant diseases contracted in the Third World, so I understand the immediate practical reasons for putting teeth into such bans.

At the same time, other countries have the right to ban our goods if we engage in comparable bad environmental practices or social practices. We are one of the only countries still not to sign the Kyoto agreements protecting the environment, and especially we refuse to significantly reduce our emission of gases that hurt the atmosphere ("greenhouse" gases). We are the world's largest producer of such gases. If we think it right to ban the goods of other countries that use antibiotics then it is right for other countries to ban our goods that contribute to greenhouse gas.

If we can develop realistic international standards for the treatment of labor, and we can develop realistic inspection procedures, and we can verify that a country violates those standards, then we probably should ban the goods made with the abused labor. Even if child labor helps India to develop, it is wrong to use seven-year-old children in factories or in the sex trades.

By the same token, other countries have the right to ban our goods if they deem that we do not meet labor standards. If they deem that our discrimination against women, Blacks, or immigrants leads to unfair labor conditions here, then they probably should ban our goods.

Individual Free Action. The suggestions in the above section referred to collective action through the state. As individuals, we can boycott anything we want for any reason we want. As groups of individuals apart from the state, we can boycott anything we want for any reason we want. Private action may be the best form of action. We can decide not to buy the goods of other countries for moral reasons as long as we understand the choice that we make and we are willing to pay the cost of our morality. Moral gain is part of gain in utility. It makes perfect sense to lose a mouthful of turtle meat so as to gain a heart full of protecting nature. This is the same as not buying a domestic product for moral reasons, such as not buying tobacco because we believe that it contributes to general moral decay among young people or not looking at porn because it perpetuates the spiritual slavery of the actors. If we believe that the use of dangerous chemicals, such as DDT, by other countries, is wrong, then we are right not to buy their goods. If we believe that killing whales is wrong, then we can choose not to buy Russian goods and Japanese goods. If we believe that killing dolphins or turtles is wrong, then we can choose not to buy Chilean goods (they have a large fishing fleet). If we believe another country treats its labor badly, then we can choose not to buy their goods. We should never confuse these personal moral responses with using the state to make other countries into better economic players or to level the playing field.

We should never confuse voluntary action by individuals or groups of individuals with collective action by the state. Individual choices not to buy foreign goods for moral reasons are not the same as collective choices by a state to sanction the goods of another country for moral reasons. As individuals, we can always choose not to buy Chinese goods because of the way they treat labor but we might not be correct to ask the U.S. government to sanction Chinese goods for that reason. I do not have good rules for when we should ask for collective action through the state or when we should not ask. I generally prefer that we leave the choice up to individuals, and not ask the state to take a collective moral action for us.