5 Conclusions for Part I

Our goal in this book has been to show how some important aspects of modern industry have changed the way international trade allots world output among nations. These new aspects—the large scale of industries and the acquisition of industrial skills—have presented trading countries with a wide range of different possible outcomes. Countries no longer are driven by market forces to accept a unique and predetermined position in the global economy, one that is virtually dictated by natural endowments. However, this opportunity to choose among different outcomes and to work toward those that are preferred has also introduced new types of conflict in the national interests of trading partners.

This revised picture of the world, with its new possibilities, raises many questions. It invites consideration of what a country's goal ought to be, and when that question is answered, it leads us to inquire about the means by which a country can act to reach that goal. It also raises questions about the role of government and of companies in contributing to national welfare. In this chapter we discuss these issues and in some cases we offer answers. However, those answers are intended more as illustration than as prescription. It is our hope that others, thinking along these lines, will find better methods and better policies so that our re-examination of international trade can be translated into actions that benefit a country.

The very first basic question raised by our model of international trade goes far beyond the bounds of economics. Should a country act exclusively in its own self-interest when that objective, successfully pursued, inflicts a low standard of living on its trading partner? Economic reasoning cannot shed much light on the appropriate answer, and we have not even attempted to explore that choice here. Our position is only that a country's choice should be conscious and informed,

not one made under the illusion that trade is either uniformly benign or inherently evil. The choice should be made with awareness of the trade-offs actually involved.

But there are many other pertinent questions that are more amenable to analysis. We have seen that whether a country gains or loses from the development of its trading partner depends on its share of world output. If the U.K. has too large a share of national income, it gains from its partner's development. If it has less than its hilltop share of national income, it is more likely to lose from its partner's further development. Clearly, an important question follows: How can a country know where it is currently positioned in our diagram, the diagram of national income versus income share, that has played such an important role in our analysis? Depending on where it is in the diagram, a country might well conclude that it needs more industries or, alternatively, that it would be better off with fewer industries. How is it to know where its present outcome is located in the diagram?

If one succeeds in answering that question, so that a country knows both where it is in the range of possible outcomes and where it wants to be, then we face another issue: Should governments be involved in trying to move a nation toward another and better outcome, if indeed a better outcome can be decided upon? In a free-enterprise economy trade is, after all, the province of firms and industries, and the results of trade depend on the individually determined actions of many individual firms.

The argument for government interest in patterns of international trade should be distinguished from advocacy of active government participation. The basis for government interest stems from the fact, amply demonstrated in our diagrams, that the patterns of industrial production resulting from international trade affect the standard of living of everyone in the countries involved. The success or failure of an industry shifts the equilibrium outcome. The result is not of parochial interest only to the companies or the industry directly involved, but, also, to the country as a whole because of its effect on national income. The issue of a direct governmental role in industry is much more complicated: As we all know, government actions can be harmful as well as helpful.

Finally, if a country knows both where it is and where it wants to be in our diagram and realizes that it is a national and not only a parochial problem, one must ask how it can move to a better outcome. Should it create or destroy, benefit or handicap, some industries in order to move

to that improved outcome? Or, are more attractive courses of action available? These are the questions that we address in this final chapter of part I of this book.

5.1 How Does A Country Know Where It Is?

We have modified the classical model by introducing industries that require large-scale operation, or alternatively, by incorporating the effect of changes in the productivity capabilities of the industries of the trading countries. In both cases we found that the points representing the various possible equilibrium outcomes in our basic graph distribute themselves into hill-shaped zones. Whether the hill shape is attributable to large-scale operations or acquired skills, the best a country can hope to achieve, if it exclusively pursues its own interests, is to end up at the peak of its hill. These are the equilibria represented by the two dark dots in figure 5.1.

If a country's share is larger than its income-maximizing level, then it is in what we referred to earlier as the zone of mutual gain. A country in this zone will then tend to benefit if it loses some income share, and

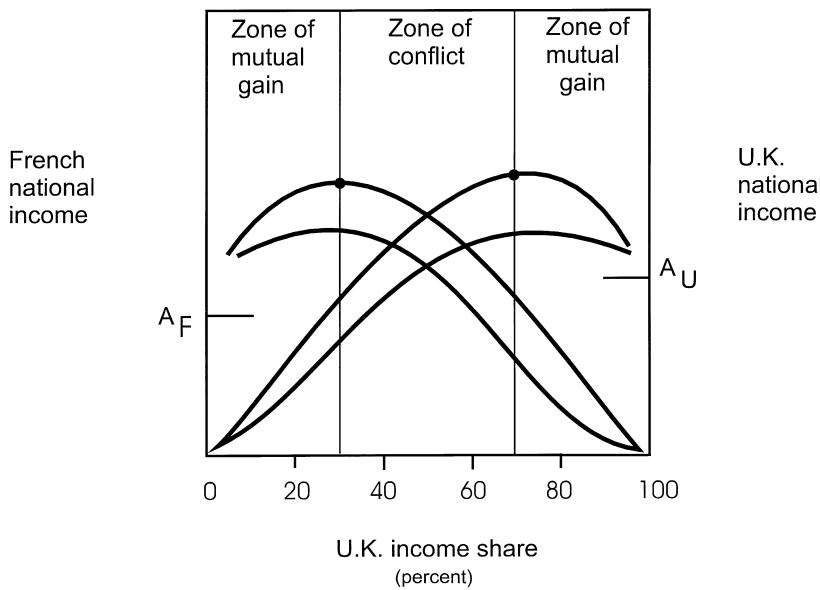


Figure 5.1
Zone of conflict and zones of mutual gain

hence some industries, to its trading partner. This is the case where it is, indeed, legitimate to claim, in the familiar phrase, that freer trade will make the other country "a better market for our goods." In fact, in this case, both countries stand to benefit from the change.

However, if a country's share of total world income is smaller than the one that corresponds to its hilltop position, then it is either in the zone between the two peaks, which we referred to earlier as the zone of conflict, or it is to the left of that zone, in the second part of the zone of mutual gain (figure 5.1). In the zone of conflict the position of the two countries is inherently a competitive one. Each country can probably benefit if it succeeds in increasing its share of the world outputs of various industries and becoming a producer in a larger number of industries, thus emerging as a higher-wage country. However, while this is likely to benefit the country that succeeds in this process, its gain will usually come at the expense of its trading partner.

This discussion immediately leads us to ask how a country can determine in which regime it actually finds itself. How can it determine whether gaining or losing industries, and hence share, really promotes its own interests? Only by knowing the position of the current equilibrium in the diagram can it ascertain the effect of changes in industries on its own welfare and that of its trading partner. Which of these diametrically opposite changes, gain or loss of industries, is desirable in its situation?

Determination of the country's current position in our fundamental diagram must be faced up to, whether that country is purely pursuing its own national interest or takes a more global view. While no simple and definitive method of determining that position is available, there are some reliable indicators.

5.2 A Guide to Location on the Map of Outcomes in Reality: Wage Differentials

In chapter 4 we saw that the share of world income that is constituted by the national income of a country is closely connected to its wage rate relative to that of its trading partner. The greater the share of world income that a country can garner (by virtue of its possession of a great many retainable industries, or its superior productivity in nonretainable industries), the higher the wages that it can pass on to its workers. We can see in figure 5.1 that, at the equilibrium point located at the apex of the U.K.'s income hill, the U.K. has captured a large share of

industries (approximately 70 percent of the total) relative to France. At this peak point the U.K. obtains its highest possible national income and can pay very high wages to its workers. France's situation at U.K.'s peak outcome is miserable indeed: it ends up with a small share of industries and a small portion of world income. Its income at that point is meager in comparison with the income of the U.K., its out put is low, and it is forced to pay its workers poorly. By our calculation (for countries of roughly similar size), the U.K. hilltop in our diagram is usually located so that the U.K. pays its workers two to four times as much as its trading partner pays its workers. So, in wage-rate terms, a country's ideal trading partner (its partner at its own best outcome) is characterized by wages ranging from 50 to 75 percent below its own wages. This observation about comparative wages in the diagram offers some guidance to a country striving for its own ideal position, helping it to assess its current trade situation.

The wage-rate yardstick (or some approximation to it) can help us to determine how trade partners measure up in the real world, telling us, for example, which countries lie in the zone of conflict and which in the zone of mutual gain. However, since the different wage rates for each country are not easily comparable, we will use, instead, data for income per person (or per-capita) as a reasonable approximation.[1] These data indicate that per-capita incomes for many European countries are well above 75 percent of U.S. per-capita income. For example, Switzerland's real per-capita gross domestic product (GDP) is 92 percent of U.S. real per-capita GDP, Norway's is 85 percent, Germany's is 84 percent, Denmark's is 79 percent, France's is 79 percent, Belgium's is 76 percent, the Netherlands' is 75 percent, Austria's is 73 percent, the U.K.'s is 73 percent, and Italy's is 72 percent.[2] This means, as we have just seen, that these countries may be considered to be in the zone of conflict with the United States.

Similarly, developing and partly developed countries tend to be found in the zone of mutual gain. For example, there is the Asian group including Thailand, Indonesia, Pakistan, China, and India, and the Latin American group including, among others, Colombia, Ecuador, Peru, and Bolivia. Among the members of the African group are Congo, Morocco, Nigeria, Ghana, and Uganda. Their per-capita GDPs lie in the range 3 to 22 percent of U.S. per-capita GDP. Of the 101 countries for which the data are available, 68 fall in this low-income group, thus providing plenty of opportunity for acts of enlightened self-interest by the world's wealthy economies.

There is also a small, in-between, group that has a per-capita income range close to that of an ideal trading partner for the United States. This group includes South Korea, Greece, Venezuela, and Mexico. These countries are certainly not highly impoverished, but they are still considerably behind the most prosperous.

What these data suggest intuitively for the United States is that it will gain if economies in South America, for example, increase their productivity, even in industries where that improvement causes them to take business away from U.S. industries. Such developments are beneficial both to the United States and to South America. On the other hand, these data indicate that such a move by western Europe or Japan will be harmful to our economy. In fact, if we can acquire industries from these industrialized areas, we will increase our income but we will do so at their expense.[3]

5.3 Moving to a Better Equilibrium

Having discussed the location of the global equilibrium, let us proceed to the next problem: How can a nation improve its share of world income, that is, how can it move toward its most advantageous share of industries? For a country that is underindustrialized relative to its principal trading partners, a gain in share in any industry is a good thing. If its relative position varies from one trading partner to another, the country may find it desirable to change its position selectively, seeking to gain industries from more affluent nations, and encouraging the development of trading partners that are less prosperous to enter into more industries.

It is important here to emphasize again that the effects of all these variations of industrial share matter a great deal to the nation as a whole. Growth in the output share of a particular industry can benefit the entire country—the expanding industry itself does not capture all the desirable consequences of that growth. But since industries or individual companies cannot expect to reap all of the beneficial effects of these changes in industry share, they probably will not devote to that goal the full amount of effort and resources that would maximize the benefits to the country as a whole. This familiar line of reasoning favors some form of supplementary incentive beyond that offered by market forces alone. While this is clear in principle, the problem in reality is to find something that actually works, something that actually succeeds in expanding or acquiring retainable industries.

Government aid designed to encourage such growth of an industry, whether nascent or not, is a path many less developed countries have followed, without the benefit of this analysis and often over the protests of the international economic community. For some countries this strategy has worked, and for some it has not. France, for example, had a long-term program supporting a French computer industry, and the same industry was chosen for government assistance by Brazil and by Japan. Of these three expensive programs, only the Japanese attempt was successful. The aeronautical airframe industry has been targeted by the European Airbus consortium, and a semiconductor industry has been developed successfully, first in Japan and then in Korea. Most of these government-supported efforts have involved high-tech industries that we can regard as retainable industries because their initial costs were enormous and their scale of operation is very large. Even today, few countries have been able to mount successful entry into these industries. Most countries have not even considered attempting to do so.

Considerably more common has been growth through acquisition of the skills that enable a country to exploit its low wages and enter industries that are not retainable. A good deal of Asian growth has involved electronics assembly, mechanical assembly (low-cost printers), production of athletic shoes, manufacture of clothing, artificial Christmas trees, and the like. Much of the learning involved has been indigenous, and much has also derived from multinational firms that set up plants to make use of the low labor costs in these countries. This type of growth has the advantage that it requires from government only a permissive environment rather than a massive directed effort.

5.4 Potato Chips versus Computer Chips: Which Industries Are Promising Targets?

From what we have said so far it would appear that all industries of the same size are equally desirable as prospective acquisitions. Their contribution to output share is, by definition, proportionate to their size, and whether lost or gained, it is industry share that matters. Some countries have focused their attempts to increase their industry share on high-tech, retainable industries, but as we remarked above, this is a difficult road. Are these retainable industries better than nonretainable industries, however? Or is it really true, to paraphrase a former U.S. government official, that the potato chip industry is just as good

a target as the computer chip industry? Do they not promise equal benefits, according to our analysis?[4]

While gains in share in each of these industries may, at least in the short run, contribute comparably to national income, expansion in potato chips or, more realistically, in athletic shoes, may well prove harder to retain. In computer chips there is far more special knowledge to be gained from experience—through learning-by-doing. A far larger initial investment both in learning and in equipment is required, and technology continues to advance at a far faster pace, thereby offering the incumbent industry the opportunity to keep moving ahead of a prospective entrant. But if an entrant can get into the field, advance to the technological and production frontier, and establish a reputation for making these intricate and sensitive products reliably, it becomes difficult to beat. In short, because the manufacture of computer chips is a retainable industry, resources spent on its establishment are apt to offer more enduring benefits to the economy.

This contrasts sharply with resources spent to facilitate the acquisition of a substantial position in athletic shoe production by domestic manufacturers. The technology and production methods are relatively static. For a developing country, the advantage may last for a worthwhile period, that is, until the prevailing wage in that country rises enough to allow it to be undercut by some other nation whose wages are now lower than its own. For a developed country, money spent on government subsidies to an industry such as athletic shoes does not promise a lasting change in productivity or establish a retainable position. Competitiveness may not outlast the subsidy. From the nation's point of view the benefits, if any, are likely to be short-lived.

This is an example of a more general point. While it is share of world income that matters primarily in our model (regardless of the identity of the industry that contributes it), industries in which a retainable position can be established are those that offer the most substantial prospect of a long-term gain in share. Thus, the analysis of this book suggests, for those countries that are capable of it, a focus on retainable industries—those in which share gain can have a more lasting effect. This may, for example, lead to emphasis on high-tech industries. In a similar vein it suggests a focus on industries of the type described in chapter 4, industries whose productivity limits are expanding rapidly and which may mature into retainable industries.

5.5 Choosing High-Benefit Industries: Bureaucratic Capabilities, History of Industrial Guidance, Political Roadblocks, and Innovation

While the governments of some nations have successfully organized, cajoled, and even forced their home enterprises into entering existent retainable industries, most such efforts have not succeeded. Those that have achieved their goals are countries with a strong tradition of powerful government and an unambiguous history of industrial policy, plus a skilled and prestigious bureaucracy, able to carry out that policy. This is a set of circumstances that seems far from the conditions that prevail in the United States. Indeed, the U.S. tradition runs in the opposite direction: It has had no conscious industrial policy, and its government bureaucracy has, with some exceptions, never aspired to a close, cooperative relationship with industry outside of the arena of national defense. Even if it were desirable, a path of very active government guidance of and collaboration with industry is probably unworkable for the United States.

In addition there still remains (in all countries, but perhaps most markedly in the United States) what may be called the "political problem." Even economists who agree that there is in principle an appropriate role for the government in encouraging, guiding, and financing industrial development have recoiled at involvement of the U.S. government, in light of its traditional patterns of behavior. They have argued, on the basis of considerable discouraging experience, that whatever dispassionate economic analysis may indicate about the identity of the industries that are appropriate candidates for encouragement and assistance, the government's selection will in actuality be influenced heavily by political pressures. Those pressures have tended to drive government to favor "sunset" industries—where employment and investments are most threatened by market developments or foreign competition, and whose prospects for the future are the least promising—because it is there that the greatest pain is likely to be felt, and the cries for public support are consequently sure to be loudest.

Although the United States may, perhaps, lack both the dedicated bureaucracy and the political will to rely on effective government backing for entry into an existent retainable industry against entrenched competition, there are other ways that it can pursue such

industries, ways that exploit the country's strengths and avoid its weaknesses. One of the historic strengths of the United States has been the large scale and the isolation of the U.S. economy through much of its history. Our domestic steel industry did not face a powerful threat of imports as it was maturing. Exports of steel to the United States were not a viable option for the European economies that were so far away.

The United States also has a history of practical innovation. Its early role in electric power and telephones, automobile mass production, and radio enabled the United States to be in on the beginning of these endeavors and to grow with them as they matured from small early stages into giant retainable industries. That tradition continues today in biotechnology, computers, software, and the Internet.

Although the U.S. has avoided any explicit industrial policy, it has nevertheless benefited in recent times from its consistent support of basic research, an ongoing commitment of government resources that has helped the United States launch an extraordinary number of major modern industries and emerge with a commanding position in them. Recent examples are the biotechnology industry and, very recently, the vast array of electronic communications of the Internet. The U.S. may not have skilled and experienced government personnel who can help to shape up an industry against an entrenched competitor, but it does have a long precedent of spending to encourage basic research. This has helped the country to be in on the start of new industries.

This research base, coupled with another U.S. strength—the venture capital system (the private network of investment firms and individuals that stands ready to finance risky, but highly promising, new undertakings)—has made it possible in the very early stages of high-tech industries to spawn small, entrepreneurial companies, most of which die, but some of which grow and form the nucleus of a new industry. For the United States it has been far easier to gain retainable industries by "growing" them from scratch, rather than by entering late into a retainable industry that is already developed elsewhere.[5]

Clearly, then, government support of basic research, coupled with its venture capital system and a culture that emphasizes entrepreneurship, seems a promising way for the U.S. to preserve and promote its economic position through retainable industries. Of course, from this point of view basic research is not an end in itself. Rather, it serves as a way of entering early into retainable industries. This implies that further development of the fruits of basic research, transforming them into

products for the market, can also make a vital contribution. But just what is to be done here is a subject for debate. Some feel that government's role should stop at support of basic research, believing that the free market can best be left to itself to take care of things after that. Others want government to help in the translation of new research findings or nascent technology into working products. Here, we want only to draw attention to the *goal*, not the means to it. The goal is to exploit the U.S. strength in basic research, turning its results into the creation of successful industries that contribute to the nation's standard of living.

There are many industries for which free-market forces have already produced these results or are currently doing so. While government support helped start the Internet, once it was going, government controls, notably the exclusion of commercial entities from access to the Internet for many years, probably slowed widespread adoption. The free market, largely through venture funding followed by public stock offerings, has now taken up this activity with great enthusiasm.

But in other industries the story can be very different. For example, recent progress in the fundamental understanding of metallurgy and composites has not rapidly found its way into the powdered metallurgy industry, a collection of very small companies with no research of their own and little or no contact with universities. It seems appropriate to seek ways to help that sort of translation, not for industries where it is already happening on its own, but for those where it is not. An industry-by-industry approach seems appropriate here, with the means of translation from basic research to viable commercial use varying from industry to industry.

However, it should also be clear that, as helpful as it is to be in at the birth of an industry and to grow up with it, a country may also be driven to defend its position when such an industry does become a large and important contributor to national income. Semiconductors, steel, and automobiles are all examples of industries in which the United States had a major role from their earliest days. Those positions, at later dates, were subjected to major challenges. In these three cases the U.S. government actually did intervene, often over the protests of some advocates of the free market. In the case of semiconductors, the federal government funded half of Sematech, an industry consortium. In the other two cases, the government encouraged "voluntary constraint" on the part of countries sending steel and automobiles into the United States.[6] In each case these U.S. industries gained time, went

through some difficult readjustments, and emerged as somewhat smaller but still substantial industries and major contributors to the national income.

Again, we emphasize that the theory described in this book indicates that such government intervention, if successful and if justified by the position of the country in world trade, need not serve only the interests of the industry in question. Our model of international trade suggests that preservation of a retainable industry, if the country has a share of national income less than its peak share relative to its trading partners, is in the national interest. It has been helpful, from the U.S. point of view, that retention of an established position, as in the cases of semiconductors, steel, and automobiles, proved to be a task far less difficult than the creation of an equivalent industry from scratch.

5.6 Increasing the Share of World Income: Nonretainable Industries

So far we have discussed the acquisition of retainable industries as a means to increase a nation's share of world income. These industries are often composed of those large, prestigious enterprises that the industrialized countries of the world are at pains to obtain. But we should also consider industries that are not retainable, the unglamorous industries in which scale of operation is not necessarily large. In chapter 4 we saw that increases in productivity abroad, coupled with lower wages, can put an end to the competitiveness of a home industry. If the home industry is already operating at maximal productivity, there is no cure for this loss within the regime of free trade that we have discussed in this book. Although support in the form of subsidies is often attempted in response to political pressure, this does not increase overall national income but merely transfers income from one group of people to another. Such an industry will eventually still be lost when the subsidy stops. In these cases the nation can try to minimize or avoid these losses by seeking to ensure that the home country's productivity in each such industry is in fact up to world standards. If nonretainable industries are producing at less than their maximal possible productivities, such improvements can postpone the loss of such industries and in some cases their loss can be avoided altogether.

The means for bringing productivity up to snuff vary. Industries that consist of small companies can be helped by an industry association that gathers information on the most productive methods from around

the world. In some cases government or the industry itself can support re-education and training of the workers in the industry. Again, an approach suited to the needs and attributes of the individual industries probably is best, and some industries will prove to be beyond help. But the goal is clear. Industries should, where possible, be encouraged and possibly helped to approximate maximal productivity. If government can find effective ways to help this happen, that is in the national interest, not only in the parochial interest of the industry involved.

There is, of course, the other side: the instances when the home country finds itself in the zone of mutual gain, not the zone of conflict, with one of its trading partners. Then it serves the home country's own interest to help its trading partner's development. Today multinational corporations do this automatically and without thought of the consequences for any particular country, including their home country, when they build plants abroad. Training and education of workers and students is another variety of such aid.

5.7 More General Government Actions to Support Industry

In addition to industry-specific approaches, there are government actions that improve general conditions and thereby can help many industries to succeed. Such measures leave the free market to determine which industries make most effective use of the resulting opportunities. Government outlays on infrastructure—such as roads, or an advanced educational system—are not aimed at particular industries but benefit many. Of course, such expenditures benefit some industries more than others. Those that build roads and those that construct or maintain the plant and equipment of universities will gain directly from such government support. And an advanced educational system will more likely benefit the computer industry more than it does coal mining. Infrastructure development thus represents yet another compromise between market choice and public-sector choice of the industries to be encouraged.

5.8 Implications of Our Analysis for Less Developed Trading Nations

Some of the most prosperous countries in the Far East have followed a pattern of rapid growth in productivity focused upon only a small number of industries rather than a fairly uniform increase in the overall

productivity of the economy spread thinly over a large number of industries. This focused pattern is consistent with what our analysis suggests as the most promising approach available to a developing country that is determined to achieve a lasting gain in its income level by acquiring retainable industries. The advantage of focus upon expansion of a small group of industries is that it prevents dissipation of the resources required for entry into a retainable industry. That is, it avoids the situation in which each industry has only a small dribble of resources made available to it, and none of them obtains means sufficient to overcome the costly barriers to entry into a retainable field.

A developing economy, unless it is among the very largest, may not have sufficient resources to provide stimulating tax concessions and infrastructure investments to *many* industries, for that can prevent the outlay from being sufficient to bring success to any one of the industries. Only if the economy confines its efforts and outlays to a small number of retainable industries are enduring successes likely. This seems to have been the approach employed by countries such as Singapore and South Korea when they developed their retainable industries. Our analysis suggests that other developing economies have something useful to learn from their examples.

These difficulties of entry, once overcome in the few industries selected for expansion, will provide a substantial degree of protection against subsequent challenges by other ambitious nations, such as the next low-wage country to develop. But retainability is a double-edged sword. Though the high entry costs provide some protection from competition to an emerging economy that has overcome the entry impediments, it will first have had to overcome the difficulties of entry itself. In this endeavor a developing country can have two important assets: First, it usually has the powerful advantage of low wages. As we saw in chapter 4, an economy has no counter in nonretainable industries to entry by a low-wage country that has attained world productivity limits. But this same observation applies to some of the activities in any industry and can give a developing country entree into some of the activities in a retainable industry. For example, a country can make a start in the high-tech computer industry by using its hard-working and low-paid labor force to assemble electronic components for a company based in an advanced country, while the high-skill processes and designs remain in that firm's home country. This gives the developing country a leg up, but continuation of economic growth will

eventually wipe out its wage advantage. It is necessary for the country to follow up its initial foray into the industry with other actions. These may include special government tax advantages granted to firms in the industry, or provision of infrastructure such as shipping facilities and improved utilities, or the requirement that foreign multinational companies make some investment in R&D to accompany production, or even the requirement that the company commit itself to carry out some of its more high-skill operations in the country before it is permitted access to that country's market. Such actions may be able to take the country beyond its early, peripheral role, and its initial entry through low wages can be converted into gradual acquisition of a retainable industry.

5.9 Multinational Corporations and Their Home Countries: A Divergence of Interests

We have just noted the role that multinational firms can play in the gradual acquisition of industries by a developing country. But what is the effect of the activities of a multinational corporation on its home country? Suppose that one of an advanced nation's leading companies decides to build manufacturing capacity in a foreign country. It may do this for any of the reasons just mentioned: that country may offer lower wages with fairly high productivity, newly built infrastructure, special governmental concessions to the company, or access to new markets.

If that new capacity takes the form of a production facility, its establishment may send both knowledge and capital abroad. If the firm has chosen well and can produce cheaply and effectively abroad, the products made there may even end up returning as imports to the firm's own home country. This overseas investment decision may then prove to be very good for that multinational firm. But there remains the question: Is the decision good for its own country? Our analysis indicates that the answer depends on whether the home country is or is not in the zone of conflict relative to its trading partner. If it is in the zone of mutual gain, the buildup of its partner is just what both countries need. Exporting capital and knowledge to another country brings that country closer to the position of an ideal trading partner for the advanced country and benefits both nations. However, if the advanced country is in the zone of conflict, then this export of knowledge and capital just pushes it further from its best, hilltop position. Here the

activities of multinational corporations may result in an improvement for the trading partner but it can constitute an actual loss of national income for the company's home country.[7]

The real-world implication is that when a U.S. corporation invests in a less developed country such as Pakistan (or Indonesia or Mauritania), it is likely to be serving the national interests of both its own nation and the less developed country. But when a U.S. company invests in Germany or Japan (relative to which the United States is in the zone of conflict), then the company is probably pursuing its own ends effectively and helping the prosperity of those countries, but its actions may well be detrimental to the U.S. national interest. Mexico appears to be an ambiguous case. These are situations that the United States did not face when it was an isolated economic power. Then it was much more likely that the prosperity of its companies would translate into the prosperity of its people. Although the phrasing is jarring, it was probably true, at least in this arena, that "What is good for our country is good for General Motors, and vice versa."[8] Jobs were created, wages paid, and capital invested in the United States. It is important to realize that, in contrast, in today's world the interests of a company and of its home country in location of production facilities can diverge sharply.

5.10 The Bottom Line: A Nation's Ability to Pay Its Workers High Wages

While we have talked about the importance of creating and retaining industries in terms of an abstraction called national income, we should not forget that behind that abstraction lies a very tangible matter: the wages that a country can pay to its working men and women. To a reasonable approximation, high per-capita national income translates into high wages, low per-capita national income means low wages, and on this hinges the standard of living of a nation's citizens. Raising of living standards is the essential task upon which this book focuses. We have shown that if a nation loses its share of world industries because its productivity lags or for any other reason, national income and the nation's wage-earners are apt to be the ultimate victims.

5.11 Concluding Remark

Free trade is not always and automatically benign. There is much yet to be learned about the implications of national interests in interna-

tional trade. Nevertheless, the main outlines of what we have sketched here are unlikely to change.[9]

We have shown that there can be inherent conflicts as well as mutual gain for nations engaged in global trade. We have shown that both the conflict and the possibilities for mutual gain follow a systematic pattern. Among developed nations changes that benefit one of them may well come at the expense of the other. But there can also be, up to a certain point, real symbiosis between the enhancement of the real income of a less developed country and that of its more developed trading partner. Both gain if the less affluent country becomes more highly industrialized.

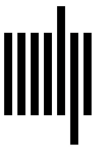
It is here, in the spontaneous partnership between the developed and the much less developed, that sanguine pronouncements about the benefits of trade appear to have their strongest foundation. Here, it is likely to be true that what is good for one trading partner is good for the other. Here, for the developed country, it is likely to be true that in helping its partner develop, it also helps itself. But this is only half of a picture that also has a darker side.

Global Trade and Conflicting National Interests

By: Ralph E. Gomory, William J. Baumol

Citation:

Global Trade and Conflicting National Interests
By: Ralph E. Gomory, William J. Baumol
DOI: 10.7551/mitpress/3306.001.0001
ISBN (electronic): 9780262274050
Publisher: The MIT Press
Published: 2022



The MIT Press

This book was set in Palatino by Best-set Typesetter Ltd., Hong Kong

Printed and bound in the United States of America.

Library of Congress Cataloging-in-Publication Data

Gomory, Ralph E.
Global trade and conflicting national interests / Ralph E. Gomory and William J. Baumol ; with a contribution by Edward N. Wolff.
p. cm.—(Lionel Robbins lectures)
Includes bibliographical references and index.
ISBN 0-262-07209-2 (hc. : alk. paper)
1. Free trade. 2. Protectionism. 3. International trade. I. Baumol, William J. II. Title. III. Series.
HF1713 .G5665 2001
382′.7—dc21

00-056069