

Preface

What the Book Is About

This book is about some of the ways in which trade theory needs to be modified from the theory provided by Ricardo and his contemporaries. In Ricardo's time trade is estimated to have constituted about 1 percent of world GDP. Since then, despite exploding world output, the volume of trade *relative to GDP* has risen more than thirteenfold.¹ This surely suggests that there have been major changes in the structure of trade that require analysis, and this book is intended to contribute to the very substantial and powerful recent literature dedicated to the purpose.

It is also clear that the nature of the goods entering into international trade has changed along with the quantities. Advantages based on natural resources still exist, as they did when England specialized in wool and Portugal in wine, but more dominant today are advantages that can be *acquired*. These can be the advantages conferred by being established in an industry and gaining thereby either specialized knowledge or economies of scale or scope. There is also the possibility, in industries where knowledge is easily transferred, and where economies of scale are not significant, of dispersing production around the world to use cheap labor or other special advantages, and then to exploit the cheapness of modern transportation to deliver these goods to global markets.

Especially in this latter case one might conclude that the location of economic activity today no longer matters since international companies can repatriate their profits from whatever part of the globe houses their actual economic activities. However, in almost all cases, most of the economic benefit stays where the value is added. Profits are usually only a small portion of the value added through economic activity, and most of the value added, such as wages, remains local. It matters to a

country to be the site of an economic activity, whoever may own the company.

Although the countries do not compete directly, in the way companies do, the amount of economic activity actually taking place within their borders is vital. As we will see in this book, it is vital not only for those engaged in a particular industry who may experience the ups and downs of activity directly but also for the country as a whole.

How the Book Came to Be Written

Our association now dates back four decades. It began soon after Albert Tucker, then chairman of the math department at Princeton, told WJB “There is a young man (REG) I think you should meet. He has just solved the integer programming problem.” Meet we soon did, and it was not long before we were happily puzzling over the economic interpretation of the integer solution, its relation to scale economies, and a variety of other fascinating subjects. The result was an article, one that has often been cited, and after many years we still recall that collaboration with affection.

Our paths parted when one of us (REG) left academe to go on to a career in the worlds of mathematical research, science, and business (as director of research at IBM), and most recently as president of the Sloan Foundation, a research sponsoring foundation. For many years we remained aware of one another but we were not collaborators.

However in 1992 we met again, and REG explained that from his experiences in industry, he had developed some ideas on the pervasive importance of scale economies, their connection with integer programming, and their implications for international trade theory. Actually it emerged that he had already worked out much of the basic analysis and had benefited importantly from instruction in equilibrium theory from another old friend, Herbert Scarf of Yale. Yet he felt strongly that to move forward he needed a continuing partner—an economist—and of course he remembered our previous authorship struggles with great pleasure. After much discussion, during which WJB objected that he had never worked on international trade theory or directly related subjects, we finally agreed to go forward together. The result has been years of happy argument, pleasant and stimulating puzzlement, or temporary disagreement, always followed by a manuscript or more.

On Our Debts . . .

Aside from those whom we have already mentioned, there is a profusion of creditors to whom we owe deepest thanks, for direct labors on our manuscript, for helpful suggestions, or for vital encouragement. Among colleagues, those to whom we owe profound gratitude include Jagdish Bhagwati, Avinash Dixit, John Geanopolis, Gene Grossman, Peter Kenen Dan Quah, Paul Samuelson, Karl Shell, Martin Shubik, Robert Solow, and Frank Stafford. Happily the list is too long to invite us to single out the contributions of each of these benefactors. Quite aside from these personal interactions, we owe a great debt to those whose research opened up the fields that this book discusses. We are thinking especially of Paul Krugman, Gene Grossman, Elhanan Helpman, Wilfred Ethier, Frank Stafford, and G. F. Johnson. Our reference list contain the names of many others, and our chapter on predecessors, chapter 10, tries to make clear the relation of this book to what has gone before, but we will never succeed in fully describing the intellectual debt that we owe to so many.

We owe special thanks to Ed Wolff of New York University for using his unique command of data to write an important chapter of this book. Chapter 11, which he has written, offers supportive empirical evidence for the persistence of specialization in industrialized countries.

The completion of any book is a collaborative effort involving the work of many people. Prominent among these are three friends and colleagues who participated in our work with faithfulness, helpful energy, and enthusiasm. Beverly DeMaggio Newman, at the Sloan Foundation, in effect, ran the enterprise and continually prevented order from becoming chaos, though occasionally it appeared that the chaos might win. Sue Anne Batey Blackman, at Princeton, read and improved much of the manuscript, bringing to it an eye that could detect opaque sentences and paragraphs and a pen that could render them into English. Finally, Janece Roderick Lewis, at New York University, made herself into a master of graphics and produced beautifully most of the diagrams that appear in this book. All three of these people, with whom it is so pleasant to work, helped in many other ways, but in singling out their most salient contributions, we hope we have suggested how much and how vital was the help they provided.

We must also thank our draftsman Mark Mamrega (yes, this art form does still exist) for transforming complex machine-generated graphs,

calculated from particular numerical models, into readable and aesthetically acceptable versions.

The debt that we owe to our wives in sustaining this enterprise is critical: There would have been no book without them. Their contribution has been many faceted. Both Hilda Baumol and Lilian Gomory-Wu endlessly contributed ideas, reactions, criticisms, and encouragement. They were patient with our preoccupations, and through their efforts they created a world around us in which the work could go forward. What more could anyone ask?

This is a section of [doi:10.7551/mitpress/3306.001.0001](https://doi.org/10.7551/mitpress/3306.001.0001)

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

©2000 Massachusetts Institute of Technology

All rights reserved. No part of this book may be reproduced in any form by any electronic or mechanical means (including photocopying, recording, or information storage and retrieval) without permission in writing from the publisher.

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