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## Trade (<https://www.bradford-delong.com/2005/06/trade.html>)

The SanityPrompt worries:

## The SanityPrompt: The Myth of Comparative Advantage

(<https://sanityprompt.blogspot.com/2005/06/myth-of-comparative-advantage.html>): But it rests on the idea that, like people, each country can do one thing best and should do that. But what if countries are not like people? Some may be if they are small and endowed with limited (or like the Mideast, abundant) natural resources. But what about the large nations? I say this because increasingly it is becoming clear that China, India, Singapore and other places are not going to compete with us just in the area of unskilled labor. As Friedman shows in a NYT Magazine piece, they will compete with us in almost everything. This means that countries, unlike people, might be able to do a lot of different things at once. In fact, as globalization increases apace, and technology shrinks distances further, it seems clear that some countries like India will be able to do everything we can do. Soon, there will be almost nothing that we do in this country that cannot be done in India for less.

The reason outsourcing has become such a hot political issue is that all those skilled workers have suddenly found out that being educated and skilled in the global economy is no protection if someone can do your job for \$10 an hour while you require \$80. The old saw that we all need to up our skills and training may offer us no help if there is no profession to which we can upgrade because all the jobs can be done in India for less. Pretty soon our exportable industries will be movies and capital. And who is to say that India can't make movies better and more cheaply for a mostly yellow, brown and black world? What professions that are productive will be left for Americans? Remember that most American jobs are in the service sector -- even academia, law and medicine.

A good friend works for one of those Indian outsourcing companies, a rival of Infosys, sent me the Friedman NYT Magazine piece It's a Flat World After All -- having seen it first hand. I sent him this reply:

It used to be that the free traders comforted us with the notion that unskilled labor ought to go overseas so we could focus on our comparative advantage -- skilled creative work. What this means for the unskilled is they essentially have to go into service jobs to service the skilled, usually at a lower standard of living -- if they themselves can't get skilled. What India shows us is that now all labor can shift over seas. That there really isn't all that much that a Westerner can do that a person living in a less developed country can't also do for a whole lot less money. Perhaps Marx was right after all. Soon, the only advantage we will have over other countries will be our financial capital and that will be concentrated in a few hands. America will become the place where all the money is (of course, before too long, if the current account deficit persists, we won't be - China will).

America will be where the owners are and everyone everywhere, even here, will work for the owners, the capitalists, at paltry but equalized wages set to the lowest common denominator. If that doesn't sound like a race to the bottom I don't know what is. If that doesn't make you protectionist I don't know what will. Countries are not likely to be able to specialize, but people are. And unless you choose to specialize in something that few elsewhere can do, your wages will be whatever the cheapest source of that same labor is likely to be. So what will Friedman and Co. tell those Americans who fear further economic integration? How will they compete if there is nothing that could even begin to make them competitive? Any honest macro-economist will tell you that the notion that free trade represents a pareto improvement in which all are made better off is a fiction.

One--accurate--path through the swamp is to distinguish between (i) productivity improvements abroad that make foreigners more efficient at producing what we import and (ii) productivity improvements abroad that make foreigners more efficient at producing what we export.

The first set of productivity improvements is a boon for us: the prices of goods we import fall as foreigners become more efficient at producing them, and our standards of living rise. The second set of productivity improvements is a bane for us: as our exports face more competition, the prices we can charge for our exports fall, and so our exports buy less in the way of imports, and our standards of living fall. How bad can this second force be? Well, in the limit--in which foreigners become so good at making stuff that there's nothing we make they want to buy at a price at which we are willing to sell--we are as badly off as if there were no international trade at all. The worst thing that engagement with the international economy can yield is the same as... the no-trade autarky outcome. What's at stake isn't our absolute impoverishment: it's the loss of some (or most?) of what had been our gains from international trade.

This, of course, assumes competent domestic macroeconomic policy. And this assumes that we do a good job of distributing the gains and losses from trade across our society. Incompetent macro policy and a government that wages class war can cause lots of damage. But in these cases the real problem isn't trade or globalization, is it?

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