

# CAPITAL LETTERS



## Everyone Benefits from Free Trade

### To the Editor:

Victor Matheson's favorable review of Jagdish Bhagwati's *Free Trade Today* (March) is good. However, in explaining why it's difficult to achieve widespread appreciation of the benefit of free trade, he errs in saying, "... free trade does not benefit everyone equally."

It's not free trade, but *the freeing up* of trade that produces unequal benefits. The process of eliminating protection or subsidization of industries can cause losses for workers and owners in those industries. However, once the process is complete and free trade is established, everyone benefits from it.

Sure, under free trade some are better off than others; however, that's the result not of free trade but of differing degrees of entrepreneurship, industry, perseverance, education, intelligence, physical ability, location, fortune—all the factors that differentiate life in general among people.

The distinction between the effects of *free trade* and *the freeing up of trade* is all-important. For if we are to achieve the widespread understanding necessary to eradicating all the government intervention in international trade that lowers standards of living, it must be recognized that it's the process of freeing up trade, not free trade, that can produce unequal benefits.

—DONALD MARSH  
*Bainbridge Island, Washington*

### Victor Matheson replies:

Mr. Marsh is entirely correct in his assessment. Unfortunately, even in a country like the United States with relatively open borders, trade barriers, both overt and hidden, exist in large numbers, and any attempt to

move to freer trade will result in winners and losers. Mr. Marsh's accurate but subtle argument is likely to be lost on those who have lost their jobs as a result of foreign competition. One very practical suggestion that is raised by his comment, however, is that it is essential to prevent trade barriers from rising in the first place as this will be much easier than removing them once they become well entrenched.

## The Wreckers of 2004

### To the Editor:

The article by Daniel Hager on the "wreckers" of the communist paradise in the Soviet Union of the 1930s is much more than just an interesting footnote to a chilling time in history ("The Lessons of Another Tolstoy," January–February). Politicians of today continue to look for scapegoats to explain away the failures of government interventions into economic activity.

All government interventions in marketplace activity get caught somewhere between F. A. Hayek's fatal conceit and the law of unintended consequences. When real-world circumstances reveal the faults of the interventions, [then] politicians, bureaucrats, and the special-interest groups that supported the interventions have to blame someone. What better group than the shadowy group of wreckers who thwart the efforts for ideological reasons?

We have all heard about those "Benedict Arnold" CEOs of U.S. companies who contract with workers in other countries and set up operations in foreign lands beyond the reach of the federal government. While these company managers have sound economic reasons for choosing other places to do business to meet the needs of consumers and produce income for stockholders, the politicians accuse them of abandoning the U.S. workers without considering the high taxes and burdensome regulations they have imposed on businesses.

Or, how about the shortcomings of local school administrators who are the justification for the Bush administration's No Child Left Behind Act for further intrusion into

decision-making by local schools. Rather than facing the reality that the experiment with government schools has been a failure, the federal bureaucrats look for local bureaucrats to blame for the problems. . . .

Doctors and hospital administrators can be added to the current list of wreckers. Their efforts to deliver health-care services frustrate those who have spent the past 40 years turning the health-care delivery system into one managed by governments. For every real and perceived failure of the current system, defenders of government intervention have some health-care provider to blame, without ever thinking that the problem is the system they have created. Lots of others could be added to the list. . . .

The good news is that modern-day wreckers are not put before actual firing squads, even though they have to suffer the sticks and stones of political attacks. We have the opportunity to learn from history that the problem is the government intervention into the economy.

—ROSS KORVES  
*by e-mail*

## Factories Don't Move Abroad

Gene Callahan in “It Just Ain’t So!” (May 2004) provides an excellent primer on why outsourcing is merely a modern extension of free-trade theory. However, he misses an important point regarding an example that he attributes to Paul Craig Roberts: “Roberts claims that there is a fundamental economic difference between an American’s purchasing clothing from a Chinese manufacturer and his purchasing it from another American who has opened a factory in China. In the first case only the clothing moves internationally, while in the second case capital also moves.”

The American who opened a factory in China has almost certainly done so by purchasing a Chinese factory or by purchasing Chinese land, labor, and other resources to build the factory. That the American had boxed up an American factory and transported it to China seems quite unlikely. Yet only in this latter case is real American capital in the form of resources or plant, equipment, and inventory moved to China.

Excluding intellectual or human capital, which can be flashed around the world via telecommunications and the Internet, real physical capital remains a relatively immobile resource.

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### Gene Callahan replies:

Dr. Hutchinson brings up an important point, but one which, I believe, is very much in line with what I was attempting to say in my article. It is quite true that it will be very rare for an American capitalist to move a factory to China—instead, he will typically send his dollars there. However, as I noted, whether the construction of a new plant is funded by American dollars, Swiss francs, or Chinese yuan, if the conditions for producing some good are more favorable in China than in the United States, it is ultimately futile to attempt to prevent the value of the good’s mobile factors of production from increasing in China vis à vis the United States. The essence of capital lies not in the physical characteristics of various configurations of machinery and material, but in the value humans place on those items as way stations in their plans to produce a consumer good.