**Trade: Trials and Triumphs**

**Male**

International trade restrictions. According to one study, 93% of economists think such restrictions are a bad idea because they reduce economic welfare. They believe the trade is the way to produce more, better and cheaper stuff and services for us all. The phrase often used to justify trade is "comparative advantage," an idea that comes up throughout economic says Northwestern Professor Robert Gordon.

**Robert Gordon**

The real way to talk about comparative advantage is to talk about everyday people, and how about the example of a lawyer? A woman lawyer, very talented at law but also able to type twice as fast as her male secretary and what should she do? Should she be doing the typing? No. She should be out winning trials and winning law cases and that male secretary plotting along at half the speed should be doing the typing because she probably makes ten times as much as he does.

**Male**

And if she is making ten times as much, it means that to the economy, the lawyering is worth ten times as much as the typing. The typist has a comparative advantage in typing because he can make more that way than as a lawyer, which without a law degree can make a dime at. The lawyer has an obvious comparative advantage in lawyering because no one will pay her that much to type. So both parties are better off by specializing and then trading the fruits of what they do. But if this is the way to go within our country's borders, why is trade consistently discouraged across borders by the various forms of what is called "protectionism"? Because countries all over the world are under pressure to protect their local companies and workers from foreign competition. They do so in several standard ways.

By imposing quotas, a ceiling on the amount of something that can be imported from another country or imposing tariffs, taxes on all imports coming into a country or instituting other non-tariff barriers like subsidies to domestic industries so they can price their goods below foreign competitors. For example, the U.S. imposed tariffs on corn brooms made in Mexico to hike their price and thus, discourage Americans from buying them. Why? Because the jobs of corn broom workers like those in this Alabama factory were threatened by corn broom workers in Mexico making one-sixth what these folks were.

**Male**

I would not wish to compete, not with the kind of way that the Mexicans are earning, you know, a dollar. I can live off --

**Male**

The same holds true in loads of industries, from textiles to steel. Why did free trade President George W. Bush slap at 30% import tax on billions of dollars worth of steel from abroad in 2002? To protect American steelworkers who are losing their job because of cheaper foreign imports.

Dan DiMicco is CEO of Nucor Steel, a low-cost U.S. producer, which historically opposes protectionism, but even his company had begun to feel the heat.

**Dan DiMicco**

The problem was things got to such an extreme with the flood of imports and the destruction of the pricing in the marketplace that we had no choice but to get involved. They had something like 32 companies in this country, the entire industry virtually in bankruptcy.

**Male**

In our reporting, we have heard the same story from industry after industry, including textiles.

**Jock Nash**

In the year 2001, 146,000 textile workers in and -- workers lost their jobs. In fact, in our industry, we lost more jobs in 20 months than exist in the steel industry.

**Male**

In short, protectionism prevails because of politics despite the fact that over time, the gains from trade benefit people the world over, those who pursue their comparative advantage in rich countries and poor ones and those everywhere who pay lower prices as a result. But it is easy to take the gains for granted. Imported goods at the mall may be a bargain, but how often do consumers thank free trade for the money they are saving even though it saves so many consumers so much. Economist Kent Ford.

**Kent Ford**

They get a bigger selection, they get a lower price. Trade benefits our exporting industries, Ford's products, airplanes, high tech, IBM, McDonalds, Kentucky Fried Chicken, Coca-Cola.

**Male**

So Americans win across the board, but the loses from trade are concentrated, painful, and obvious, American workers lose their jobs. As in the steel industry, which President Bush tried to protect, but then Europe threatened to retaliate with tariffs against us, Japan and China made threats as well. Meanwhile, back in the inferno, noted trade economist Robert Lawrence thought the U.S. tariff heights, plus Europe's threats of counter-tariffs might trigger a trade war, which would make us all worse off.

**Robert Lawrence**

What I really worry about is that our governments, the United States and Europe are going to get very caught up in fighting individual battles in retaliating and in fact, engage in a tit for tat confrontation, which could escalate over time.

**Male**

But CEO Dan DiMicco says foreign competitors have been using non-tariff barriers like government subsidies to engage in unfair trade with the U.S.

**Dan DiMicco**

This is not a matter of tit for tat. We have already been tatted in a big way. I do not know how better I can put that and maintain a sense of humor, okay?

**Male**

Moreover, say critics of so-called free trade, it can be unfair in another way when poorer countries exploit their workers to keep their wages down. Economist Thea Lee.

**Thea Lee**

Labor can be cheap because the government has made a conscious decision to deny workers the right to have a political voice, to organize unions, to bargain collectively or they are using prison labor, forced labor, indentured child labor on a wholesale basis and that is wrong.

**Male**

So you have no problem with free trade in principle, but it should have rules to ensure basic human rights in a place like China, say, or to make sure the environment is not ruined.

**Thea Lee**

Exactly

**Male**

What is hard to dispute, however, is that the removal of barriers to trade seems to have increased economic growth. After World War II, tariffs averaged a hefty 40% on manufactured goods across the globe. Over the decades, they have been brought down to today's 4% or so, while the U.S., Europe, and Japan have prospered because of low tariffs, say economist like Professor Lawrence.

**Robert Lawrence**

The United States has never been more open as an economy and the United States has never been more prosperous. We do not try to make everything ourselves. We buy from the rest of the world and we sell to the rest of the world. Sure, some competition is not perfectly fair and we do need rules of the game in order to deal with unfair competition, but by and large, I think it would be extremely foolish for us to think we could withdraw and retreat back into a Fortress America.

**Male**

Economists like Lawrence agree that countries will always be under pressure to protect domestic industries, like say agriculture, but that is why the World Trade Organization was created, to regulate the rules of the game. Indeed, in late 2003, the WTO based in Belgium ruled against the U.S. steel tariffs as illegal. U.S. steel producers and workers denounced the decision as meddling with the sovereign affairs of America but the U.S. government then lifted the tariffs making American steel users like auto companies happy. Lifting the tariffs meant cheaper steel for the cars they sell, mainly to the fellow Americans.

Increasingly however, it is not just manufacturing or farm jobs that countries have been trying to protect. More and more of the world's jobs are in the service sector; more than 80% of jobs in the U.S. Service workers have long thought they were safe from international competition. A convenient case in point, my dry cleaner in Brooklyn, Massachusetts to whom global competition has long been an abstraction.

**Carl Levine**

It does not mean anything. People are going to come in here, they want to look good, they want a good product and that is what we offer them.

**Male**

So you care about what happens in Brooklyn?

**Carl Levine**

That is my main concern is, how I am going to make a living here and then I worry about the outside world.

**Male**

Carl's assistant Jimmy Clark underscores the obvious. "What is to worry about? Competition from some super efficient dry cleaner in Japan?"

**Male**

They will still be in Japan and we will still have Brooklyn.

**Male**

Economists like Robert Lawrence point the jobs like these to reassure Americans about the limit of the threat from workers abroad.

**Male**

Most of these people are in the service economy, most Americans work in the service economy, only about 15% of Americans are employed in manufacturing, only about 2% are employed in agriculture and those are sectors which are severely subject international competition. For the rest of us, they may be some elements of international competition, but by and large, our economy is self-contained.

**Male**

But foreign competition is now threatening U.S. service jobs as never before. The internet and the telecommunications revolution have meant that more and more service work can be sent anywhere in the world. That has led to call centers in India for instance, where they do fulfillment for U.S. catalog companies.

**Female**

The black bra and the CD recorder will be delivered by 6 PM, Friday.

**Male**

There is even a website, Elance.com, where companies from anywhere in the world can post requests for software jobs, design services, accounting, and get bids from anywhere in the world. And then there is the Pittsburgh firm that sends doctor's dictations to India to be transcribed. As this promotional video shows, it has set up shop in four Indian cities because workers there have a comparative advantage in typing.

**Male**

Its software engineers are among the best in the world. English is the primary language. There is high computer literacy, excellent internet connections, and an experienced transcription workforce. The time difference between the United States and India is also an added value.

**Female**

While we are sleeping, they are working.

**Female**

For the first time, medical transcription truly has 24-hour coverage.

**Male**

The Indian workers are doing the job for a fraction of the U.S. cost by capitalizing on their comparative advantage. Typing for a few bucks an hour is their best most valuable work alternative. So they type while the U.S. medical personnel exploit their comparative advantage providing healthcare, but as this new global competition in services grows, it is leading U.S. service workers to call for protection. Software engineer Judy Adelstein is trying to form a union for high tech workers, speaks for many of them.

**Judy Adelstein**

This country on one side of its mouth that talks about how wonderful and we care about everybody, we are building, rebuilding a rack and we are doing this and we are doing that, but they do not care about their own people, okay? So do not talk at two sides of your mouth, okay? Do not talk -- capitalism works. It works for you because you are rich. The corporations are on the country. It does not work for the rest of the people.

**Male**

Judy Adelstein's husband is also a software engineer. He lost his job due to 9/11. Two years later, he had not found another.

**Scott Adelstein**

I mean, how do you explain 350 resumes and no job? Maybe just seeing how much experience I have and my salary, and saying, "Well, why we should pay him this kind of money when we can get someone for a lot cheaper?"

**Male**

What kind of money?

**Scott Adelstein**

$52,000.

**Male**

But the answer for a U.S. worker like Scott Adelstein say free trade economists and businessmen alike is to reinvent himself economically so he is always a step ahead of the competition, whether it is local or global. Wall Street money manager Rajiv Chaudry who came to the U.S. from India precisely because of the opportunities here thinks U.S. workers will continue to create new forms of comparative advantage.

**Rajiv Chaudry**

The internet was created in the United States, not in any other country in the world, and because of the internet, 10 years later, we have created -- we have really refashioned our own economy and not in the process of refashioning the global economy. As a result, you know, millions of jobs have been created in this country as well as outside, so I do not know what the next big thing is going to be, but I can tell you one thing. It is going to come from this country and it is going to create a lot of jobs in the United States.

**Male**

Try telling that to Scott Adelstein, however. What was he doing when we last saw him?

**Scott Adelstein**

I am doing stock work for retailer.

**Male**

Meaning?

**Scott Adelstein**

Kmart.

**Male**

Kmart?

**Scott Adelstein**

Right.

**Male**

What exactly do you do?

**Scott Adelstein**

Stocking the shelves, pricing goods, and I work in nights.

**Male**

Are you embarrassed? I mean, you said retail, stocking, I did not know what you meant at first.

**Scott Adelstein**

Yeah, well, you know, it is just that, you know.

**Male**

You did not want to tell right away.

**Scott Adelstein**

Right.

**Judy Adelstein**

He is embarrassed, I think, with good reason. He is an educated person.

**Male**

An educated person who is competing against the increasingly educated counterparts abroad and who feels threatened by and therefore, suspicious of free trade regardless of the wide spread long-term benefits, almost all economists assure us free trade inevitably brings.

**References**

* <http://www.mhhe.com/economics/solman_video_mov/trade_triumph.mov>